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GOVERNMENT AND ADMINISTRATION

Ministerial Resignation and Appointment

The appointment of a new Lord Chancellor was announced on 26 October.

Owing to ill-health, the Rt Hon The Lord Havers has tendered his resignation as Lord Chancellor. The Lord Mackay of Clashfern has been appointed in his place. Lord Mackay has been a Lord of Appeal in Ordinary since 1985. From 1984 to 1985 he was a Senator of the College of Justice in Scotland and before that he was for five years Lord Advocate of Scotland.

Northern Ireland

The Government is proposing that those people wishing to stand for elective office in Northern Ireland should be required to sign a declaration that they will not support any proscribed organisation. The Secretary of State for Northern Ireland, Mr Tom King, has welcomed the recently published report on fair employment drawn up by the Standing Advisory Commission on Human Rights which recommends legislative changes to ensure equality of opportunity in employment.

Declaration by Elected Representatives

Outlined in a paper[1] for discussion with constitutional political parties and other interested bodies, the proposal that people wishing to stand for elective office should sign a declaration that they will not support proscribed organisations is designed to safeguard local democracy and help prevent the deliberate destabilisation of political life in the Province by apologists for violence.

Noting concern in Northern Ireland about the role and activities of elected representatives whose attitude to terrorist violence appeared incompatible with a genuine commitment to constitutional politics, the paper says that it is a fundamental principle of democracy that people should be free to participate in elections, regardless of their political opinions. Any reasonable definition of legitimate political activity, however, had to exclude the use or threat of violence against political opponents or in alleged pursuit of political objectives. 'A severe challenge to democracy arises when those who will not forswear violence seek to use the electoral process itself with the ultimate aim of undermining democratic institutions. These conditions unfortunately exist in Northern Ireland.'

A serious threat to stable local democracy in Northern Ireland had come from Sinn Fein whose candidates had made no secret of their support for terrorist crimes, including murder, carried out by the Provisional IRA. While Sinn Fein's activities and provocative statements gave greatest public offence, other politicians from time to time were also ambivalent about the use of violence for political ends.

The presence in council chambers of councillors fully committed to supporting terrorism gave rise to particular concern. In the case of Sinn Fein its councillors supported the party's 'military wing' – responsible for a number of assassinations of elected representatives – and had sought to justify the IRA's terrorist campaign. In such circumstances, and in any others where councillors might make clear their support for terrorism, it was natural for other councillors to fear that information gleaned by such activists in the course of their elective duties might be made available to terrorist organisers. Similar considerations would apply to other elected bodies in Northern Ireland – such as a future Assembly – if members of this kind were present.

Although in some areas a number of procedural devices had been tried in order to exclude Sinn Fein members from council business, these had been challenged in the courts, resulting in three judgments rejecting the legality of the councils' actions. These judgments had, however, drawn attention to the close relationship between the political activities of Sinn Fein and the murders and other violent crimes committed by the IRA to overthrow democratic government in Northern Ireland. Against this background the Government had had a number of meetings with Northern Ireland councillors and party delegations to explore views on what could be done and had examined a number of ways of giving effect to the widely held view that those who condoned or supported violence should not be permitted to exploit democratic institutions. 'At the same time, the Government is concerned to ensure that any measures adopted should not inhibit the legitimate expression of political views nor conflict with the principles of free elections and elective representation.'

Having examined a number of measures, the Government says that a declaration of candidates as a condition of standing for elective office would seem to offer the most practical and acceptable means of protecting democracy in Northern Ireland's elected institutions from the threat of those supporting criminal

[1] *Elected Representatives and the Democratic Process in Northern Ireland; a Discussion Paper*. HMSO, £1·20. ISBN 0 11 701333 1.

violence for political ends. 'The Government believes that there would be widespread support for the proposition that elected representatives, irrespective of their political viewpoint, should sign a declaration unequivocally abjuring the methods of terrorist organisations in furthering their cause.' It would be appropriate for the declaration to be required at the stage of candidature and enforcement could either be through the criminal or civil courts, the issue at stake becoming the breach of the declaration rather than the beliefs of the person concerned.

Fair Employment

The Standing Advisory Commission on Human Rights (see 'Background' below) published a report[1] on fair employment in Northern Ireland on 29 October. Noting that high unemployment is experienced by both Protestant and Catholic sections of the community, the report says that the unemployment rate for male Catholics is two and a half times that for male Protestants and that inequalities such as this should be tackled as a matter of urgency. Research had shown that age structure, family size and the geographical dispersion of each section of the community were examples of the factors that explained the relative differences between Catholics and Protestants in employment and unemployment. It considered that factors in the labour market that had contributed to the differential, such as discrimination, differential access to information and the operation of kinship patterns, could and ought to be influenced by public policy.

The report recommends that action should be taken by the Government to eliminate this inequality and emphasises that employers, trade unions, schools and community groups have an important contribution to make through affirmative action. The law needed to provide an opportunity for aggrieved individuals to seek legal remedies to reflect the seriousness of any wrong done, to re-emphasise the public policy against discrimination, to compensate individuals, to act as a general deterrent to discrimination and to enforce change directly when other methods have not been successful. Detailed recommendations on how these general principles should be applied are set out in the remainder of the report.

Expressing gratitude for the work done by the Commission, Mr King said that the Government would be taking the report's recommendations into account when framing detailed proposals for new legislation on fair employment. 'We are firmly committed to ensuring equality of opportunity in employment for everyone in Northern Ireland whatever their religious background.'

Mr King pointed out that the Government had already taken action to address the problem of continuing inequalities in Northern Ireland. It had given full support – including financial backing – to the Commission's current review and in September had published a revised guide on the effective practice of religious equality of opportunity which gave employers, trade unions and other interested groups clear advice on the practical steps required to ensure effective equality of opportunity in employment (see pp 311-12).

Background

The Standing Advisory Commission on Human Rights was established by the Northern Ireland Constitution Act 1973 to advise the Secretary of State on the adequacy and effectiveness of the law regarding discrimination on the grounds of religious belief or political opinion and redress for persons aggrieved by discrimination on either ground. In January 1985 the Commission informed the then Secretary of State that it would be undertaking a review of the adequacy and effectiveness of existing laws and institutions in securing freedom from discrimination and furthering equality of opportunity in Northern Ireland. The Secretary of State welcomed the decision to embark on the review and provided substantial financial support (£150,000). In addition the Policy Studies Institute conducted a programme of research on behalf of the Commission; this has been published in a separate study available from the Institute at 100 Park Valley East, London NW1 3SR. The title of the study is *Equality and Inequality in Northern Ireland*. £50. ISBN 0 85374 418 1.

[1] *Religious and Political Discrimination and Equality of Opportunity in Northern Ireland. Report on Fair Employment*. Standing Advisory Commission on Human Rights. Cm 237. HMSO, £10·70. ISBN 0 10 102372 3.

EXTERNAL AFFAIRS AND DEFENCE

Commonwealth Heads of Government Meeting

Among the topics discussed by Commonwealth heads of Government in Vancouver in October were world and Commonwealth political developments, particularly the situation in Southern Africa, and world economic issues, especially trade and the problems facing both small and developing countries.

In addition to a final communiqué, the meeting, which took place from 13 to 17 October, issued separate documents on Southern Africa, Fiji, world trade and Commonwealth Functional Co-operation. Of the 45 countries which attended 37 were represented by heads of State or prime ministers. Britain was represented by the Prime Minister, Mrs Margaret Thatcher.

Prime Minister's Statement

Reporting to the House of Commons on 22 October (*Hansard*, Vol 120, No 28, cols 921-32) Mrs Thatcher said that Fiji and South Africa had been the two main issues discussed at the meeting.

In their statement on Fiji the heads of Government had acknowledged that by Commonwealth convention Fiji's membership of the Commonwealth had lapsed with the emergence of a republic (see pp 316-17). They had expressed their sadness at developments there and had called for a resolution of the island's problems by the people of Fiji themselves. They had offered the Commonwealth's good offices towards such a resolution and were willing to consider an application from the republic of Fiji to renew its membership of the Commonwealth if circumstances warranted. Britain hoped that acceptable arrangements would be found in Fiji to preserve the country's democratic tradition and enable it to apply successfully for renewed Commonwealth membership.

On South Africa, the heads of Government had repeated their commitment to the total elimination of apartheid by negotiation against the background of a suspension of violence on all sides. Mrs Thatcher said that most heads of Government supported sanctions against South Africa and had agreed on a number of procedural steps, including a study of South Africa's relationship with the international financial system and the establishment of a Committee of Foreign Ministers. No specific additional measures or sanctions against South Africa had been adopted. The statement had also underlined the importance of continued aid to black South Africans as well as to the front-line states, in order to reduce the latter's dependence upon South Africa, and Mrs Thatcher drew attention to Britain's record in both these respects. She said that the statement represented no significant change from the position reached at the Commonwealth meetings at Nassau in 1985 and London in 1986, and stated that there was a growing realisation on the part of many Commonwealth countries that change in South Africa would be a slow and long-drawn-out process, and that the momentum for change must come from within South Africa itself. Britain had implemented the limited measures agreed at earlier meetings, as a signal to South Africa, but there was disagreement between Britain and other Commonwealth governments on the most effective means to get rid of apartheid. Britain believed that sanctions would only harden attitudes, would put the jobs and livelihoods of black South Africans at risk, and would be damaging to the front-line states.

Mrs Thatcher drew attention to three further measures discussed at the meeting. The heads of Government had pledged themselves to promote the liberalisation of trade, and there had been unanimous support for a strong and effective General Agreement on Tariffs and Trade and a positive outcome to the Uruguay Round (see p 328, 1986), which should significantly enhance the prospects for those negotiations. The meeting had also discussed the special problems of the poorest and most heavily indebted countries, primarily in sub-Saharan Africa, and had supported the Chancellor of the Exchequer's initiative to help relieve their burdens of debt (see pp 256-7, 315-16). The heads of Government had also agreed to create a Commonwealth institution to promote co-operation in distance education to help meet the educational needs of member countries. There was much detailed work still to be done, and Britain had much to contribute with its experience of the Open University[1] and Open College (see p 335).

In conclusion, Mrs Thatcher stated that the Commonwealth tolerated many points of view, and that genuine differences within it over the best way to get rid of apartheid should not obscure the valuable contribution which it made to the well-being of its members.

Replying to questions on South Africa, Mrs Thatcher said that the application of sanctions would be counter-productive, would increase oppression and would delay the dismantlement of apartheid. The greatest dismantlement of apartheid was coming through industries in South Africa that were operating the best codes of practice and training more people for skilled and managerial jobs. None of the other Commonwealth countries which said that they believed in sanctions had imposed any extra sanctions as a result

[1]See COI reference paper *Britain's Open University*, No 2/84.

of the meeting. Violence could not solve the problem of apartheid. Britain condemned violence wherever it occurred and fully supported the negotiating concept defined by the Eminent Persons Group (see p 215, 1986) of genuine negotiations against the background of suspension of violence. However, that demanded the rejection of violence by the African National Congress (ANC).

COMMUNIQUÉ

The text of the final communiqué, slightly abridged, is as follows:

Heads of Government stressed the importance they attached to sustained and constructive international dialogue and negotiation aimed at creating a world free of insecurity and tension and promoting an era of genuine accord in international relations. They agreed that the issues facing the world community towards the end of the 1980s were as challenging as ever. They expressed their resolve to make full use of the Commonwealth's capacity to assist the world community, drawing upon its proven facility for enlarging consensus.

. . . Their views on a number of issues and problems are set out below.

Global Trends and Prospects

Heads of Government were conscious that they were meeting at a time when an improvement in superpower relations was holding out the prospect of a more peaceful global environment. Welcoming recent developments in East-West relations, they called on the leaders of the Soviet Union and the United States to work with vigour and commitment for continued progress in arms control and disarmament.

In reviewing a number of international issues, heads of Government were acutely aware of the interrelationship of economic and political factors in efforts to ensure international peace and security and of the urgent need to strengthen the role of the United Nations in dealing with both military and non-military threats to security.

Heads of Government expressed the hope that the improvement in East-West relations and prospects for peace and security and greater recognition of interdependence would be reflected in greater international co-operation for development. They called for a clearer acknowledgment of the need for partnership and coordinated approaches on the widest possible basis to secure a more robust world economy, and reiterated their commitment to efforts to revitalise international co-operation for development and their support for international institutions which sustain development.

Disarmament

Heads of Government welcomed the progress in the Geneva talks on reducing intermediate-range nuclear weapons [see pp 88-9]*. . . . They urged that every effort be made to achieve agreement on significant reductions in strategic nuclear arms with a view to preventing an arms race in space and terminating it on earth. They expressed the hope that an INF agreement would provide impetus for progress in other areas of disarmament, particularly for securing a world-wide reduction in conventional forces and achieving an agreement on banning the development, production, stockpiling and deployment of chemical weapons. They believed that further progress on the verification issue would have a favourable influence on all disarmament negotiations.*

Heads of Government welcomed the recent agreement between the United States and the Soviet Union to start negotiations with the aim of agreeing upon effective verification measures which would make it possible to ratify the United States/Soviet Union Threshold Test Ban Treaty of 1974 and the Peaceful Nuclear Explosions Treaty of 1976 and to proceed thereafter to negotiating further limitations on nuclear testing. Heads of Government believed that this would facilitate progress towards the achievement of a negotiated and verifiable Comprehensive Test Ban Treaty. In the meantime, most heads of Government stressed the need for earnest efforts to be made for an immediate halt to the testing of nuclear weapons.

Noting the conclusions of the recent UN Conference on Disarmament and Development,[1] heads of Government called for efforts to ensure that progress in arms control was accompanied where possible by a reduction in the budgets for both nuclear and conventional arms . . . [and] urged all countries without exception to contribute to efforts in the field of disarmament.

Cyprus

Heads of Government reaffirmed . . . their support for the independence, sovereignty, territorial integrity, unity and non-aligned status of Cyprus, and reiterated their condemnation and non-recognition of the unilateral declaration of independence by the Turkish-Cypriot leadership in November 1983 [see pp 422-5, 1983, and 337, 1985]*. They further denounced all subsequent steps and measures taken in order to consolidate the secessionist 'state' in the area of Cyprus which, to their deep regret, still remained under foreign occupation. They noted with satisfaction that no other country besides Turkey had recognised or assisted this illegal entity and called upon all states not to recognise any Cypriot state other than the Republic of Cyprus.*

. . . They stressed the need for the speedy withdrawal of all foreign troops and settlers from the Republic of Cyprus and in this respect noted with interest the proposal made by President Kyprianou for the demilitarisation of the Republic of Cyprus. Heads of Government stressed the importance of securing compliance with the United Nations resolutions on Cyprus in general and in particular Security Council Resolutions 541 (1983) and 550 (1984) calling for the withdrawal of all secessionist actions as well as for the transfer of the City of Varosha to the administration of the United Nations as a first practical step in improving the situation.

Heads of Government supported the continuation of the mission of good offices of the United Nations Secretary-General entrusted to him by Security Council Resolution 550 for finding a just and viable solution to the Cyprus problem in conformity with the Charter and United Nations resolutions on Cyprus and called on all parties to co-operate fully with the Secretary-General. They also noted the proposal made by President Kyprianou for a United Nations-sponsored International Conference on Cyprus.

Heads of Government commended the work of the Commonwealth Action Group on Cyprus they had set

[1]This was held in New York in September 1987.

up at their 1983 Meeting in New Delhi [see pp 412-13, 1983] *and the support it had given to the United Nations Secretary-General's good offices mission. As an expression of continuing solidarity with the Government and people of Cyprus and their colleague, the President of Cyprus, they agreed in accordance with the stand taken by the Commonwealth countries that the Group should continue to monitor developments within the scope of its terms of reference including in particular assisting the Secretary-General's efforts.*

Belize

Heads of Government noted with regret Guatemala's continued non-recognition of Belize's sovereignty and independence, which they viewed as inconsistent with the movement towards peace and democracy in Central America. They urged the parties to pursue negotiations to achieve an early and lasting settlement, based on the acceptance of Belize's right to strengthen its sovereignty and independence and to preserve its territorial integrity and inviolability. Renewing their commitment to co-operate in the search for a settlement, they requested the Secretary-General to convene the Commonwealth Ministerial Committee on Belize whenever necessary. They commended the continuing role of the British Government in helping to provide for Belize's security [see p 290, 1986].

Guyana

Heads of Government welcomed the improved relations between Guyana and Venezuela, and the increase in co-operation in several areas between the two countries. In relation to the controversy arising from Venezuela's territorial claim they were encouraged by the continuing efforts and the determination of the two governments to reach agreement in accordance with the 1966 Geneva Agreement.

South Pacific

Heads of Government reaffirmed their support for the right of the peoples of the remaining non-self-governing territories of the South Pacific to self-determination and independence in accordance with the Charter and decolonisation principles and practices of the United Nations. . . . They stressed the need to secure an early settlement on the political future of New Caledonia which reflected requirements for a viable political solution and recognised the inalienable right of all the peoples of the territory to participate by means of free and democratic processes in framing the society in which they live. They also noted the unanimous view of the members of the South Pacific Forum that the recent referendum in New Caledonia had been fundamentally flawed and had made no contribution to the resolution of the situation in the territory, which could only be achieved through a genuine act of self-determination.

Heads of Government expressed their belief that nuclear weapon free zones, on the basis, among other criteria, of agreements freely arrived at among states of a region, could constitute an important disarmament measure. They recalled that the adoption of the South Pacific Nuclear Free Zone Treaty by the South Pacific Forum on 6 August 1985 had been an important step in global and regional efforts to prevent nuclear proliferation. They noted that the Treaty had entered into force on 11 December 1986, that nuclear weapon states had been asked to support the Treaty through adherence to the accompanying Protocols, and that the number of parties to the Treaty now totalled nine. They expressed the hope that nuclear weapon states adhering to the Protocols would do so without reservation or interpretation. Most of them renewed their strong opposition to the continuation of nuclear tests in the region.

Indian Ocean

Heads of Government noted the efforts made by the Ad Hoc Committee on the Indian Ocean towards agreement on preparatory work for the long-delayed United Nations Conference on the Implementation of the 1971 Declaration of the Indian Ocean as a Zone of Peace. They emphasised the importance of the Conference in view of the continuing military presence of outside powers in the Indian Ocean. They reiterated the need to carry forward the preparations expeditiously in order to enable the convening of the Conference at Colombo, with the participation of all concerned states, at an early date but not later than 1990 as recommended by the Ad Hoc Committee to the 42nd United Nations General Assembly. In this context they called for full and active participation in the Conference by all permanent members of the Security Council and major maritime users, which was essential for the success of the Conference.

South Asia

Heads of Government welcomed the Indo-Sri Lanka Agreement recently signed by the President of Sri Lanka and the Prime Minister of India as an act of the highest statesmanship.[1] *They were happy to note that the Agreement meets the legitimate aspirations of all the people in Sri Lanka within a democratic system of governance . . .* [and] *acclaimed the Agreement as one arrived at bilaterally between two member states of the Commonwealth in a spirit of understanding and accommodation which will ensure regional peace and stability. Heads of Government wished the two leaders every success in the full implementation of the Agreement. They affirmed their fullest support for the territorial integrity, independence and sovereignty of Sri Lanka.*

Heads of Government noted with satisfaction the establishment of the South Asian Association for Regional Co-operation (SAARC)[2] *in which the majority of members were Commonwealth countries. They viewed its emergence as evidence of the continuing appeal of regionalism and were hopeful that it would contribute significantly to the region's peace, stability and progress.*

South East Asia

Heads of Government viewed with great concern the persisting tensions in South-East Asia, arising particularly from the continuing armed conflict in Kampuchea. . . . They reaffirmed their support for the right of the people of Kampuchea to determine their own destiny free from foreign interference, subversion and

[1] Under this Agreement, signed in July 1987, India was to supervise a ceasefire between the Sri Lankan armed forces and Tamil guerrillas, and to assist in implementing a long-term peace plan to resolve disputes between Sri Lanka's Sinhalese and Tamil communities.

[2] Established in December 1985, the SAARC aims to promote mutual economic, social and cultural development among its seven member states (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka).

coercion. They reiterated the call they had made at previous Meetings for the speedy withdrawal of all foreign forces from Kampuchea and agreed on the urgent need for a comprehensive political settlement which would ensure peace in the region. . . .

Heads of Government noted with approval efforts being made towards the early establishment of a zone of peace, freedom and neutrality in the region, and urged all states fully to support these efforts.

Mediterranean

Heads of Government expressed their concern at the persistence of unresolved conflicts in the Mediterranean region. They renewed their call for restraint and stressed that a just and durable settlement to the problems of the region in accordance with United Nations resolutions would make a significant contribution towards the easing of tension and the improvement of international security. . . .

Heads of Government welcomed the continuing initiatives by Mediterranean states to enhance peace, security and co-operation in their region. They noted with interest the results and decisions of the Second Meeting of Foreign Ministers of the Non-Aligned Mediterranean countries held in Brioni, Yugoslavia, in June 1987, and welcomed in particular the expressed intention of these countries to work with the other countries in the region for improving relations, reducing tensions and resolving conflicts through peaceful means.

The Caribbean

Heads of Government noted with satisfaction the continuing efforts to strengthen regional co-operation in the Caribbean, including the decision at the Eleventh Meeting of the Organisation of Eastern Caribbean States (OECS) in May 1987 to work towards the political union of OECS member states. They agreed that the Commonwealth should support wherever possible this initiative designed to reduce the vulnerability of small economies. . . .

Central America

Heads of Government were gravely concerned that continuing tension in Central America posed a serious threat to the peace and stability of the whole region with potentially dangerous consequences for international security. They welcomed the Central American Accord signed in Guatemala on 7 August 1987[1] by the Presidents of El Salvador, Costa Rica, Honduras, Guatemala and Nicaragua as a significant attempt to find a solution to the region's problems. . . . They were heartened by the clear indications of genuine efforts to implement the Accord and appealed to all parties concerned to adopt a constructive attitude to the Accord so as to generate the mutual trust necessary for achieving conditions of durable security for all states in the region and respect for their sovereignty, independence and self-determination.

Middle East

Heads of Government expressed deep concern at the dangerous tensions arising from the unresolved problems of the Middle East, especially the Palestinian issue, which continued to pose a grave threat to international peace and security. Concern was also expressed at the situation in the territories occupied by Israel. They recognised that a just and lasting settlement should be on the basis of the relevant United Nations resolutions, the withdrawal of Israel from territories occupied since 1967, and recognition of the rights of the Palestinian people, including their inalienable right to a homeland, as well as the right of all states in the region to live in peace within secure borders.

Heads of Government noted the growing support for the convening of an International Peace Conference on the Middle East under United Nations auspices in order to achieve a just and comprehensive solution to the Middle East problem [see pp 90-1]. *They were of the view that the participation of all parties directly concerned in the Arab-Israel conflict, including the Palestinians, and the Permanent Members of the United Nations Security Council, would be a* sine qua non *for attaining the objectives of the Conference. Most heads of Government reaffirmed their view that the Palestine Liberation Organisation, as the sole legitimate representative of the Palestinian people, must be involved on an equal footing in negotiations for a settlement.*

Heads of Government expressed their deep concern at the violence which continues in various parts of Lebanon. They reaffirmed their support for the territorial integrity, independence and sovereignty of Lebanon. They also expressed the hope that genuine efforts would continue to be made towards national reconciliation in Lebanon.

The Gulf

Heads of Government were gravely concerned about the increasingly dangerous situation in the Gulf with the continuation of the Iran/Iraq conflict which had already taken a colossal toll in human lives. They acknowledged that the conflict increased tensions in the wider area posing a threat to international peace and security. In stressing the need to intensify efforts to achieve a settlement, they called upon the parties to accept Security Council Resolution 598 [see p 253] *as a first step towards a negotiated settlement and expressed their support for the efforts of the United Nations Secretary-General in this respect.*

Afghanistan

Heads of Government reaffirmed support for the efforts of the United Nations Secretary-General and his Special Representative to achieve a solution to the problem of Afghanistan which would leave the Afghan people free to determine their own future, guarantee the right of Afghan refugees to return to their homes in safety and honour, and which was based on the withdrawal of foreign troops, strict observance of the principles of non-intervention and non-interference and full respect for the independence, sovereignty and non-aligned status of Afghanistan [see pp 18-20].

Small States

Heads of Government reaffirmed their view that because of their particular problems, small states merited special measures of support and should continue to have priority in the developmental assistance given by the Secretariat. They recognised that international developments continued to demonstrate the

[1]Under the terms of the Accord, a timetable was set for ceasefires between governments and guerrilla forces in the region, for the holding of elections, and for a return to full political freedoms.

peculiar vulnerability of these states and . . . urged the continuation of efforts towards the achievement, at both domestic and global levels, of an environment conducive to the security and viability of these states.

Heads of Government expressed appreciation of the support given by several member governments which had enabled the office facility established in New York for permanent missions to the United Nations of small Commonwealth states to be enlarged. They noted that the enlarged facility, due to be fully functioning in early 1988, would benefit small states from Africa, Asia, the Caribbean and the Pacific, and welcomed it as an admirable example of Commonwealth co-operation.

Human Rights

Heads of Government reaffirmed their commitment to the observance of human rights. They welcomed the work of the Secretariat's Human Rights Unit in promoting understanding and respect for human rights within the Commonwealth, in accordance with the principles enshrined in Commonwealth Declarations and the main international human rights instruments. They agreed to give active consideration to early ratification of or accession to those instruments. They asked the Secretariat to continue to facilitate exchanges of information on law reform, national institutions and domestic procedures for the promotion of human rights in Commonwealth countries.

Heads of Government affirmed their respect for the rules of international humanitarian law and universally recognised humanitarian principles. They expressed support for the International Committee of the Red Cross in its efforts to protect and assist the victims of armed conflicts on the basis of the 1949 Geneva Conventions and the 1977 Additional Protocols.

Mutual Assistance in Judicial Matters

Heads of Government welcomed the Commonwealth Scheme for Mutual Assistance in Criminal Matters which Commonwealth Law Ministers had adopted at their meeting in Harare in 1986 to establish a framework for greatly enhanced co-operation between courts, prosecution authorities and law enforcement agencies in Commonwealth countries. They pledged to accord urgency to the implementation of the Scheme. . . .

Heads of Government also expressed satisfaction at the adoption by Law Ministers of a scheme for the Transfer of Convicted Offenders within the Commonwealth, based on the desirability of furthering the rehabilitation of offenders and easing their eventual reintegration into society in their own countries.

Terrorism

Heads of Government reiterated their deep concern over the incidence of terrorism worldwide and their condemnation of all terrorist activities whether perpetrated by individuals, groups or states. They renewed their pledge to counter terrorism by every means possible and to strengthen their co-operation, both formal and informal, in preventing and combating all forms of terrorism. They also recognised the urgent need to encourage universal adoption of the relevant international conventions, to strengthen their adherence to these conventions, and to promote appropriate action through competent international organisations.

They urged all countries to fulfil their obligation under international law to refrain from organising, instigating, assisting or participating in terrorist acts in other states or acquiescing in activities within their territories directed towards the commission of such acts. In particular, they stressed the need to develop effective extradition arrangements and deny terrorists a safe haven. They were also of the view that special attention should be given to the growing and pernicious nexus between terrorist groups and drug trafficking.

Law of the Sea

. . . Most heads of Government reaffirmed the importance they attached to the [Law of the Sea] *Convention as an instrument of international co-operation and development, and renewed their appeal to all states to sign the Convention and proceed with the ratification process without delay. They hoped that action could be taken on other parts of the Convention, in particular the proposal to establish regional centres on marine research.*

Children in Detention in South Africa

Recognising that children in South Africa had become specially tragic victims of apartheid, heads of Government were deeply disturbed by the indictments made by young South African children at the International Conference on Children, Repression and the Law in Apartheid South Africa held in Harare two weeks before their meeting. They were disturbed to learn that all the children testifying at the Conference had stated that they had been detained without charge, tortured and grossly maltreated by the South African authorities and that the distinguished South African lawyers at the Conference had identified serious deficiencies in the legal protection afforded to children.

Heads of Government recalled that the Commonwealth Eminent Persons Group in its Report had also commented adversely on child abuse and that by the regime's own figures large numbers of young children had been detained and many had died at the hands of the security forces over the years. They called upon the Pretoria regime immediately to open all its places of detention to regular international inspection and to provide an effective legal framework to guarantee to children the special protection to which their vulnerability entitled them.

Economic Prospects

Heads of Government noted that 1987 was a further year of recovery from recession and of low inflation in industrial countries. But they expressed disappointment that the level of growth overall had been lower than hoped for and that the recovery had not reached large parts of the developing world where prospects remained generally poor. They were particularly troubled about the continuing plight of low-income countries, especially in sub-Saharan Africa, and least developed countries more generally. They agreed that successful growth-oriented adjustment and sustained development required, in addition to higher growth in industrial countries, improved market access for developing country exports, and substantially increased financial flows as well as measures to tackle the debt problem. They stressed the importance of domestic adjustment measures in both developed and

developing countries and acknowledged the courageous steps being taken by many governments, especially those of low-income states. They warned that, in order for the adjustment efforts of developing countries to succeed, a more supportive external environment was imperative.

Policy Co-ordination

Heads of Government welcomed recent moves to strengthen economic policy co-ordination among the Group of Seven leading industrial countries and the agreement at their Summit Meeting in Venice in 1987 [see pp 202-5] *to take additional action if world economic growth proved inadequate. They were of the view that current circumstances warranted,* inter alia, *a higher rate of growth in domestic demand in some countries. They also welcomed the Louvre Accord on exchange rates* [see pp 96-7] *and stressed the need for continuing efforts to secure a more stable exchange rate regime, based on an appropriate pattern of sound underlying fiscal, monetary and trade policies. They noted with interest the proposals for a more permanent regime of managed floating, designed to ensure maximum non-inflationary stability of key exchange rates. They expressed the hope that continued progress would be made towards securing improved consultations between the major industrial countries and the wider international community in relation to global economic management.*

UNCTAD VII

Heads of Government were glad to receive a report on the outcome of UNCTAD VII from the Minister of Finance, Economic Planning and Development of Zimbabwe. . . .They welcomed the revival of a spirit of co-operation which had characterised the debate and facilitated agreement on a consensus declaration. They expressed the hope that this would encourage renewed commitment to multilateral dialogue and co-operation between developed and developing countries. They called for expeditious implementation of the conclusions and decisions of UNCTAD VII and hoped that UNCTAD would play an increasingly effective role in promoting harmonious and equitable international economic relations.

Environmental Issues

Heads of Government took note with appreciation of the report of the World Commission on Environment and Development entitled Our Common Future [see p 156]. *They agreed that the goal of environmentally sustainable development should be central to national and international economic policy. They also agreed that, in addition to industrial pollution, much environmental stress originated in poverty and rapid population growth. Remedial action required not merely effective environmental control but also radical measures to improve living standards in developing countries. They welcomed the recent international agreement to counter threats to the earth's ozone layer and the proposals to arrest the rapid depletion of tropical forests. They expressed serious concern at the possible implications of man-made climatic change, especially for low-lying and marginal agricultural areas.*

. . . They asked the Secretary-General to consider the problems posed for member countries by the apparently growing incidence of natural disasters, especially floods. Specifically, they asked him to convene a group of experts to examine the implications for Commonwealth countries of rises in the sea-level and other natural disasters resulting from possible climatic change. . . .

Structural Adjustment Issues in Relation to Women

Heads of Government reiterated the view, expressed at their 1985 Meeting, that the impact of structural adjustment policies on women required specific investigation. Women, they emphasised, played a vital role in all aspects of the national economy and, in particular, in many sectors where structural adjustment measures had a great impact. They endorsed the recommendation of Commonwealth Ministers Responsible for Women's Affairs that the Secretary-General should establish, in consultation with Finance and Economic Planning Ministers and Ministers Responsible for Women's Affairs, an Expert Group on the Impact of Structural Adjustment on Women. They asked for its report, which they would consider at the 1989 Meeting, to be circulated for comment first to Ministers Responsible for Women's Affairs and then to be presented to Finance Ministers.

Financial Flows, Debt and Growth-Oriented Adjustment

Heads of Government were deeply concerned at the serious deterioration in, and poor prospects for, financial flows to developing countries. . . . They stressed the desirability of substantially increased net resource flows from developed to developing countries, to give greater support to growth-oriented adjustment and long-term development.

Heads of Government had an extensive discussion of the very serious debt situation facing many low-income countries, especially those in sub-Saharan Africa. . . . They endorsed the measures proposed by the British Chancellor of the Exchequer to deal with problems of official bilateral debt of low-income countries pursuing appropriate policies [see pp 256-7, 315-16]. *In particular, they welcomed the policy which is leading to agreements at the Paris Club for longer repayment and grace periods on rescheduled debt for debt-distressed low-income countries. They stressed the importance also of reaching early agreement to reduce interest rates on such debts.*

Heads of Government noted with appreciation that some Commonwealth donors had converted official development assistance (ODA) loans into grants. . . . They urged all donors, who had not already done so, to cancel all the aid debt of all debt-distressed low-income countries. They agreed that debt relief measures must lead to additional resources and that the increased assistance to debt-distressed countries should not be at the expense of aid to other needy countries.

Heads of Government expressed disappointment at current levels of ODA, now far below the United Nations targets, and urged all donors to give renewed priority to reaching them. . . .

Heads of Government unanimously supported a very substantial enlargement of the IMF's Structural Adjustment Facility (SAF) by the end of 1987, following the recommendation of the Managing Director of the IMF for a tripling of SAF's resources as the minimum necessary to deal with the serious debt problems of low-income countries. They emphasised that resources

made available by donors should be additional. They noted the recent announcements by Britain and Canada that they would contribute sizeable amounts to the enlargement of SAF [see p 316] *and they urged donors to follow suit as soon as possible.*

Heads of Government also reviewed the debt situation facing middle-income countries, some of which were covered neither by the Baker Plan [see p 316] *nor by the Lawson initiative. They welcomed the renewed attention being given to ways of making the debt problem manageable within the context of growth-oriented solutions. They commended for serious consideration by the international community the proposal put forward by the Prime Minister of Jamaica on behalf of the member states of the Caribbean Community (CARICOM) to deal with the problems facing countries with large and uncomfortably bunched debts to the international financial institutions.*

Heads of Government agreed that the World Bank had an important role to play in expanding flows of finance for developing countries, both directly and indirectly, especially given the poor immediate prospects for a revival of private lending to these countries. They strongly endorsed the recommendation of Commonwealth Finance Ministers for a very substantial capital increase for the World Bank and urged rapid completion of the relevant deliberations. They welcomed the completion of the IDA VIII replenishment negotiations [see p 260], *and hoped that the replenishment would be made fully effective at a very early date.*

Heads of Government also emphasised the important role of private inflows of finance to supplement domestic savings in accelerating development. . . . They endorsed the request made to the Secretary-General by Finance Ministers in Barbados to examine ways in which Commonwealth capital-importing countries could improve their access to private capital, including the possibilities for venture capital and portfolio investment. They suggested that particular attention be given to the role of surplus economies in producing more, and more varied, private flows.

Heads of Government reviewed the conditionality policies of the IMF and the World Bank. They agreed that such conditionality must be responsive to growth and other development objectives and that performance criteria in IMF programmes should be sufficiently flexible to reflect these objectives. They were particularly concerned that the impact of adjustment policies on women, children and vulnerable social groups should be taken into account fully by international financial institutions. Noting that a review of adjustment policies was underway in the IMF, they welcomed the proposals by the Managing Director to revitalise the Extended Fund Facility[1] and to make greater use in Fund programmes of contingency mechanisms to avoid such programmes being thrown off track by unpredictable external factors. They renewed their earlier call for improved access to the IMF Compensatory Financing Facility[2] as a source of finance for temporary export shortfalls. At the same time they noted recent proposals for incorporating broader contingency factors in compensatory financing arrangements, and recommended that these proposals should be given further consideration.

[1]Set up by the IMF in 1974, the Extended Fund Facility provides medium-term assistance to members to overcome serious structural balance of payments maladjustments.

[2]Through the Compensatory Financing Facility, established in 1963, the IMF provides assistance to members experiencing balance of payments difficulties arising from temporary export shortfalls or from increases in the cost of cereal imports caused by factors largely beyond their control.

Commodities

Heads of Government expressed concern over the continuing instability as well as the current weakness in the purchasing power of most commodity exporters . . . and agreed on the need to counter unfair trading practices and protectionist measures affecting commodities. They also agreed on the importance of co-operation among producers of commodities.

Heads of Government requested the Secretariat to bring together and update the results of studies analysing the causes and effects of depressed prices for many commodities of particular concern to Commonwealth developing countries, especially low-income countries, and to consider new approaches to commodity problems. In the meantime, they called for renewed efforts, including greater technical and financial help, to secure more stable commodity markets and greater diversification of developing countries' economies. . . .

Economic Problems of Small States

Heads of Government expressed appreciation of the continuing work done by the Secretariat on the economic problems of small states. They urged the Secretary-General to continue to give high priority to these countries' needs. They thought it important to improve co-operation among the small states themselves and for the Commonwealth to maintain recognition of these states as a group and to ensure that their problems were given adequate attention in international fora generally.

Heads of Government recognised that the question of graduation from eligibility for World Bank and IDA funds was of special concern to the Commonwealth and particularly to its smaller members. They called on the World Bank to ensure that countries were not prematurely graduated and that the graduation process took into account not only per capita GNP but also the circumstances of individual countries, including their ability to tap alternative sources of finance.

Heads of Government also noted those particular difficulties faced by small states in international trade, especially in view of their greater reliance on international markets and their need to diversify from highly specialised commodity exports. They deplored the severity of trade barriers confronting small states, and called for more attention to the special needs of states within the framework of more liberal trading arrangements.

Heads of Government recognised the crucial importance of maritime resources for the small states concerned, especially island developing countries, and the need for greater assistance to them to protect and maximise their utilisation of these resources.

Least Developed Countries

Heads of Government emphasised the need for full and expeditious implementation of the Substantial New Programme of Action (SNPA) for Least Developed Countries (LDCs) and of the recommendations

of the Mid-Term Review as adopted.[1] *They recognised,* inter alia, *that, while the LDCs bore primary responsibility for their overall development, the developed countries should attain the internationally agreed targets for ODA to these countries as expeditiously as possible. They welcomed the decision of the United Nations . . . to convene a United Nations Conference at a high level on the LDCs in 1990 to review and appraise the implementation of the SNPA.*

Food

Heads of Government expressed grave concern over the continuing food emergencies in certain countries in sub-Saharan Africa and the adverse effects on food production of floods and drought elsewhere, especially in Asia. As an immediate measure, those Commonwealth countries in a position to do so resolved to help the affected countries in all possible ways and requested other donor nations and multilateral organisations to increase their relief efforts. . . . [They] *agreed that the countries concerned should intensify their efforts to increase food production – including livestock and fisheries – by completing the necessary adjustments in their agricultural structures, and developing and implementing appropriate food management and security systems.*

Emphasising the importance of a helpful external environment to this process, heads of Government recognised the need for the Secretariat's existing technical assistance programmes to be strengthened, especially in the areas of food management and security and where they could complement the activities of other agencies.

Shelter for the Homeless

Heads of Government noted with satisfaction that the United Nations General Assembly had celebrated the International Year of Shelter for the Homeless in 1987. They also noted that the UN Declaration on the International Year of Shelter for the Homeless envisaged international measures under a programme of action up to the year 2000. They expressed their appreciation of action already taken in the context of Commonwealth programmes of functional co-operation and invited the Secretary-General to continue his efforts to improve the shelter and neighbourhood of all the poor and disadvantaged throughout the Commonwealth by the year 2000.

STATEMENT ON SOUTHERN AFRICA

We continue to recognise the situation in Southern Africa as one of the major challenges facing the world community today. We reaffirm our shared international responsibility to work together for the total eradication of apartheid and the brutalities that it continues to inflict on its victims within and in the neighbourhood of South Africa.

We consider that the crisis engendered in the region by apartheid has seriously deteriorated since our last Meeting in Nassau. Repressive measures resulting in more suffering and loss of life have been intensified within South Africa, and the toll taken by acts of war and destruction directed against South Africa's neighbours in an attempt to sustain and defend apartheid has continued to rise. Southern Africa desperately needs regional peace and stability.

It is therefore our collective view that the urgency of international action against the intolerable situation that exists in Southern Africa has heightened and that as Commonwealth members we have the continuing obligation to make an effective contribution towards the ending of apartheid and relieving South Africa's neighbours of the burden of being forced to devote much of their resources to their resolute and determined efforts to defend their security and advance the cause of freedom and independence in their region. We recognise that these states are making intolerable sacrifices in a cause that concerns all countries and peoples.

We have reviewed developments in Southern Africa since our Nassau Meeting which produced the Accord on Southern Africa [see pp 344-5, 1985] *and reaffirmed our shared commitment to its objectives. We also recall the London Review Meeting in August 1986 which considered the Report of the Eminent Persons Group (EPG),* Mission to South Africa, *established under the Nassau Accord* [see pp 256-8, 1986]. *The EPG was to initiate, in the context of a suspension of violence on all sides, a process of dialogue across lines of colour, politics and religion, with a view to establishing a non-racial and representative government.*

Meeting for the first time in full session since the publication of the Report, we warmly commend the work of the EPG and agree that the EPG mission offered a real opportunity for the South African Government to initiate a negotiating process between the Government and the true representatives of the black majority, leading, ultimately, to a peaceful resolution of the problem of apartheid and to a break in the cycle of violence in the region. Pretoria's rejection of the 'Negotiating Context' submitted by the EPG, which was underlined by its brutal attacks against Botswana, Zambia and Zimbabwe on 19 May 1986, was nothing less than a tragedy for the region.

At Nassau we appealed to the authorities in Pretoria to take a number of steps in a genuine manner and as a matter of urgency if the crisis of apartheid was not to end in even greater tragedy. In spite of the Pretoria regime's increased intransigence since Nassau, we remain convinced that only through negotiations can catastrophe be averted. We are encouraged in this by the obvious yearning for peace with justice which is evident among South Africa's peoples of all races as was dramatically highlighted by the recent Dakar Meeting. Accordingly, we again call on the South African Government to accept the 'Negotiating Concept' of the EPG which remains as valid today as it was when the Group put it forward.

Commonwealth Response – Sanctions

With the exception of Britain we believe that economic and other sanctions have had a significant effect on South Africa and that their wider, tighter, and more intensified application must remain an essential part of the international community's response to apartheid.

[1]Adopted by UNCTAD in 1981, the SNPA aimed to help the 31 LDCs towards sustained self-development through programmes at national and international levels. Donor countries promised to double their official development assistance (ODA) to LDCs by 1985, or to increase it to 0·15 per cent of their gross national product (GNP). The Mid-Term R.view in September-October 1985 noted that these targets had not been met, and that the economic progress of the LDCs had been adversely affected by economic factors beyond their control.

We realise that if the sanctions and other measures we have adopted are to have maximum effect, they must be part of a wider programme of international action. While mindful of the widespread view within the international community that comprehensive and mandatory sanctions would be the quickest route to bring Pretoria to the negotiating table, we, with the exception of Britain, believe that, pending the acceptance of such a position by the international community as a whole, genuine efforts should be made to secure the universal adoption of the measures now adopted by most Commonwealth and other countries, including the United States and the Nordic countries. We commit ourselves to continuing efforts to secure a more concerted application of a global sanctions programme.

Further, in the interest of greater effectiveness, we have decided to continue co-ordination by the Secretariat of the implementation of measures as agreed by each member and to identify any efforts to frustrate them.

With the exception of Britain, we agree to evaluate on a continuous basis the application of sanctions in order to assess their impact. Moreover, given the significance of South Africa's relationship with the international financial system and the need for a better understanding of developments and possibilities in this sphere, with the exception of Britain we will initiate an expert study, drawing on independent sources, to examine this aspect of the South African economy.

Finally, mindful of our commitment at Nassau which we reaffirm here in Vancouver, we agree that we will continue to take further action individually and collectively as deemed appropriate in response to the situation as it evolves until apartheid is dismantled; in the case of all but Britain that includes sanctions.

South Africa and its Neighbours

In addition to our programme of action addressed directly to apartheid itself, we believe that the desperate plight of South Africa's neighbours calls for a comprehensive response from the international community. Substantial and invaluable help is already being provided by several Commonwealth countries through programmes of development assistance and security. However, the capacity of South Africa's neighbours to resist Pretoria's policy of destabilisation and destruction must be strengthened.

South Africa's aims are clear enough. In part, their actions are intended to coerce the Front-Line States into abandoning support for the black majority in South Africa, and to force them into co-existence with apartheid. They are also intended to perpetuate the dependence on South Africa of the majority of these countries whose development efforts are now being undermined by the need to confront Pretoria's aggression. Therefore, if assistance for the region's development is to be effective, the international community must also address the security needs of the Front-Line States.

The Commonwealth is well placed to give a lead in this field. The Commonwealth has always considered assistance to the region as an integral part of its support for the struggle against apartheid. But so far, such assistance has been directed mainly to efforts to reduce dependence on South Africa. In the face of a systematic campaign to undermine the economies of these countries, the Commonwealth should itself take – and encourage the wider community to take – a broad view of the region's needs; assistance is needed both to advance disengagement from the South African economy and to provide for its security against South African aggression.

Against this background, and while acknowledging the continuing value of the forms of bilateral and multilateral assistance now being provided, we have decided to initiate an enhanced programme of co-ordinated Commonwealth assistance consistent with and complementary to the objectives of SADCC [Southern African Development Co-ordination Conference] *and other agencies collaborating to this and with the region, including the Africa Fund.*[1] *We see these efforts as directed towards the Front-Line and neighbouring states, particularly Mozambique. We further see these efforts directed to key sectors such as transportation and communications, embracing both their rehabilitation and their physical protection. In this respect we have decided to give priority attention to the Limpopo Line and the Port of Maputo. On a related matter, we propose to examine the question of transit rights of the land-locked states of the region.*

We see Mozambique in a key geographical position in relation to the Front-Line States. If the region is to cease to be hostage to South Africa, special and urgent attention must be given to the needs of Mozambique. We have therefore decided to establish a special fund to provide technical assistance to Mozambique. We also stand ready, if requested, to embark upon a process of consultations with a view to enabling those of our members in a position to do so to make appropriate contributions to the security needs of Mozambique and other Front-Line States requiring such help.[2]

Reaching into South Africa

We are agreed that the Commonwealth should give support to the victims and opponents of apartheid within South Africa.

We endorse individual and collective efforts to provide assistance to the victims of apartheid and we resolve to augment those efforts to the fullest extent possible. We recognise the particular value of the Nassau Fellowship Programme in providing educational opportunities to young South Africans, and intend to expand it.

In light of the problems created by the state of emergency and other repressive measures in South Africa, we consider the provision of humanitarian and legal assistance to detainees and their families a high priority, and those in a position to do so undertake to increase their individual efforts in this regard.

Recognising its growing importance, we shall also increase our support to the trade union movement in South Africa, in particular, for labour education.

We plan wherever possible to increase our individual contributions to economic and social development programmes in such fields as education.

Despite having to confirm the conclusion of the EPG that Pretoria is not prepared to negotiate fundamental

[1] A fund set up by the Non-Aligned Movement in September 1986 to assist the Front-Line States in the region to fight apartheid, and to enable them to enforce sanctions against South Africa as well as to withstand any retaliatory economic action.

[2] For Britain's aid to Mozambique and the SADCC, see pp 91-2, and *British Aid to Southern Africa: A Force for Peaceful Change and Development*, a pamphlet prepared by the COI for the Foreign and Commonwealth Office, London 1987.

change in South Africa, we believe that we should take advantage of any opportunity to promote real internal dialogue. In the absence of movement by the authorities in Pretoria, we shall increase our contacts with South Africans of differing viewpoints. We shall make an enhanced effort to give support to the opponents of apartheid through such activities as the organisation of conferences on the future of South Africa, the arrangement of visits and the publication of studies related to ending apartheid. We have agreed to consider means by which these activities could be co-ordinated and their importance highlighted.

The need for Commonwealth action to counteract South African propaganda and censorship by exposing the truth about apartheid has been made more pressing by the draconian curbs imposed on the press at the beginning of 1987. These amount to an all-out attempt to replace independent reporting of events in the country with its own propaganda. Largely as a result of these restrictions, much of what is happening in South Africa no longer reaches the television screens and newspapers of the outside world.

In view of what is at stake, we are agreed that the Commonwealth should give high priority to counteracting South African propaganda and censorship.

Namibia

We are gravely concerned that the impasse in Namibia's progress to independence under the terms of Resolution 435 seems to have assumed the proportions of a permanent stalemate. We again stress the illegality of South Africa's presence in Namibia and we remain unanimously convinced of the view that Resolution 435 provides the only basis for an internationally acceptable settlement of the Namibian question [see p 351, 1978].

Linking the withdrawal of Cuban forces to a settlement under Resolution 435 – a linkage which we have unanimously rejected – has, in effect, provided an opening for the South African regime to continue to frustrate any progress towards implementation of the Resolution. The challenge, therefore, is to develop an effective process of negotiation leading to the Resolution's implementation.

At Nassau we made it clear that the action which we envisaged in the Accord on Southern Africa should be directed equally towards ensuring South Africa's compliance with the wishes of the international community on the question of Namibia. We also recall that at New Delhi we agreed that if South Africa continued to obstruct the implementation of Resolution 435, the adoption of appropriate measures under the charter of the United Nations would have to be considered. These continue to be valid conclusions.

The Way Forward

The unfolding – but often unseen – tragedy of South Africa impels us to ensure that the world continues to focus its attention on apartheid until we meet again in full session. With the exception of Britain, we see great value as a measure of our continuing concern in establishing a Committee of Foreign Ministers able to meet periodically to provide high level impetus and guidance in furtherance of the objectives of this statement. The Committee will comprise the Foreign Ministers of Australia, Canada, Guyana, India, Nigeria, Tanzania, Zambia and Zimbabwe and will be chaired by the Secretary of State for External Affairs of Canada.

We believe that this Statement provides a framework for a significant Commonwealth initiative to assist the region, and is one to which a number of Commonwealth countries, which hitherto have not been in a position to contribute to multilateral efforts, will be enabled to do so. It will require detailed consultations between both donor Commonwealth governments and the countries in question. We are instructing the Secretary-General to initiate these processes as a matter of the highest priority.

STATEMENT ON FIJI

Commonwealth leaders acknowledged that, on the basis of established Commonwealth conventions, Fiji's membership of the Commonwealth lapsed with the emergence of the Republic on 15 October [see pp 316-17]. *They viewed with sadness the developments in Fiji and hoped for a resolution of the problem by the people of Fiji on a basis consistent with the principles that have guided the Commonwealth. They agreed that the Commonwealth would, if requested, be ready to offer its good offices towards such a resolution and, on such basis, if the circumstances warrant, to consider the question of Fiji's membership of the Commonwealth if asked to do so.*

VANCOUVER DECLARATION ON WORLD TRADE

In this separate declaration the heads of Government said that continuing implementation of global protectionist measures would increase the risk of exchange rate instability and exacerbate the problems of development and indebtedness, affecting particularly the exports and growth prospects of developing countries and their ability to service debt. They pledged themselves to work for a more open, viable and durable multilateral trading system to promote growth and development, and agreed on the crucial need for reform of all trade-distorting agricultural policies.

The heads of Government affirmed that a strong and credible General Agreement on Tariffs and Trade (GATT) was essential to the well-being of all trading countries and was the best bulwark against mounting protectionist pressures. They stated that the functioning of the GATT should be improved through enhancing its role in maintaining an open multilateral system and its capacity in the area of dispute settlement.

The Secretary-General was requested to give priority to the Commonwealth Secretariat's work in assisting member governments in the trade field through advice and technical support, and the larger states in the Commonwealth undertook to assist both developing and smaller states through consultations and trade policy training programmes.

COMMONWEALTH FUNCTIONAL CO-OPERATION

In a separate communiqué, the heads of Government reaffirmed the value they placed on functional co-operation as a vital expression of the Commonwealth spirit of partnership and the importance of the Commonwealth Fund for Technical Co-operation as the primary Commonwealth agency for development co-operation.

Distance Education

The report of the Expert Group chaired by Lord Briggs was welcomed by the heads of Government, who pledged themselves to work towards its central recommendation that 'any learner anywhere in the Commonwealth shall be able to study any distance-teaching programme available from any bona fide college or university in the Commonwealth'. They agreed to create a Commonwealth institution to promote co-operation in distance education, which may become the University of the Commonwealth. A number of countries, including Britain, promised financial support or other facilities for the scheme. The Secretary-General was requested to convene a working group, including representatives of the main donor countries and others with experience and interest in distance education, to develop the financial and organisational framework, establish guidelines and set priorities for the institution, with the aim of starting the first co-operative programme as early as possible.

Drug Abuse and Illicit Trafficking

Welcoming the Commonwealth Scheme for Mutual Assistance in Criminal Matters adopted by Law Ministers in Harare in 1986, the heads of Government agreed on the urgent need for its implementation, noting that some governments had already taken action to deal with the tracing and forfeiture of the proceeds of drug trafficking. There was concern at the marked rise in drug abuse and illicit trafficking and at the problems caused to states which had been made into transit points for the drug trade; and the Secretariat was recommended to assist Commonwealth countries in organising training to deal with the problems of drug trafficking and addiction. A commitment was made to maximise international co-operation and especially to work for the early conclusion of the United Nations Convention Against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances.

Acquired Immune Deficiency Syndrome

Deep concern was expressed over the global Acquired Immune Deficiency Syndrome (AIDS) situation. The heads of Government encouraged the Secretariat to continue its efforts to facilitate regional AIDS control activities in collaboration with the World Health Organisation (WHO) and other international agencies, offering support at national level to the Secretariat's initiatives in combating AIDS.

Commonwealth Functional Co-operation

A number of other functional co-operation programmes were also discussed. The importance of the Commonwealth Youth Programme was reaffirmed, but it was agreed that a balance had to be struck between the Programme's requirements and the financial capacity of governments. The heads of Government welcomed the concept of a Commonwealth Health Development Programme which would increase skills and experience in all Commonwealth countries to deal with the priority health problems of the developing countries, and they encouraged the further development of the initiative. The Commonwealth Science Council was praised for its work in promoting scientific co-operation and helping member countries to establish a firm scientific and technological capability for sustainable development. The Secretary-General was requested to develop a long-term programme of action on conservation and development based on the proposals contained in the report *Conservation for Sustainable Development*; and Commonwealth Agriculture Ministers were requested also to examine what practical assistance could be given to the programme at their November 1987 meeting.

The heads of Government discussed the report of the Expert Group on Youth Unemployment, noting with concern its evidence that unemployment among young men and women was significantly worse than among the working population as a whole and that the problem was intensifying in developing countries. They requested the Secretariat to collect and disseminate material on member countries' youth employment policies, and reiterated their support for the work of the Commonwealth Trade Union Council, including its programmes for trade unions in South Africa and Namibia and for the training of women workers throughout the Commonwealth. They expressed their appreciation of the increased role of the Commonwealth Foundation in promoting collaboration between the professional community, non-governmental organisations and governments, and hoped that all Commonwealth countries would become members of the Foundation.

Western European Union

Britain has welcomed a recent meeting of the Western European Union in The Hague as another step towards the creation of a more coherent and effective European participation in the defence of the Atlantic community.

The foreign and defence ministers of the seven member countries (Belgium, Britain, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands) of the Western European Union (WEU) met in The Hague on 26 and 27 October, and issued a final document entitled *Platform on European Security Interests*, which underlined their commitment to develop a more cohesive European identity.

Foreign and Commonwealth Secretary's Statement

In a statement issued after the WEU meeting on 27 October, the Foreign and Commonwealth Secretary, Sir Geoffrey Howe, said that the meeting was another important step forward towards creating a more coherent and effective input by European countries into their own security and that of the Atlantic community (see pp 86-7). A set of key principles to guide the further development of the WEU was agreed to, in particular 'the need for Europe to make its own distinctive contribution in security and political matters'. The ministers also underlined the obligations and commitments all members of the Union had entered into as members of the Atlantic Alliance.

The Hague document, Sir Geoffrey explained, also contained a firm message of support for Alliance solidarity, for the continuing validity of nuclear deterrence, for the continued presence of United States nuclear

and conventional forces in Europe, and for the involvement of a number of European countries in co-operative arrangements with the United States in the nuclear field. European security, he said, had to be seen as a single arch with two pillars – one European, one American – and it was that clear insight which had inspired this latest document.

European Security

In *Platform on European Security Interests* the ministers recalled their commitment to build a European union in accordance with the Single European Act which WEU countries had signed as members of the European Community (see pp 224-5, 1985, and 143-4, 1986). They were convinced that the construction of an integrated Europe would remain incomplete while security and defence were excluded, and declared also that the revitalisation of the WEU, through the modified Brussels Treaty (see pp 402-4, 1984), was an important contribution to the broader process of European unification.

Europe, the centre of East-West relations, remained a divided continent forty years after the second world war, the 'Platform' continued. The human consequence of this division was still unacceptable and, although certain improvements had been made through bilateral relations or on the basis of the Helsinki Final Act (see pp 347-9, 1986), opportunities for further improvements which might present themselves had to be exploited in the interest of all Europeans. WEU ministers noted that there had not been any lessening of the military build-up which the Soviet Union had sustained over many years. The geostrategic situation of Western Europe was such that it was particularly vulnerable to the superior conventional, chemical and nuclear forces of the Warsaw Pact, and the latter's superior conventional forces and its capability for surprise attack and large-scale offensive action was the fundamental problem for European security. Under these conditions, the security of the Western European countries could only be ensured in close association with the United States. 'The partnership between the two sides of the Atlantic', the document continued, 'rests on the twin foundations of shared values and interests. Just as the commitment of the North American democracies is vital to Europe's security, a free, independent and increasingly more united Western Europe is vital to the security of North America.'

The WEU ministers reaffirmed that political solidarity and adequate military strength within the Alliance, arms control, disarmament and the search for genuine détente were not contradictory but complementary. The criteria for European security were listed as: the prevention of war through the maintenance of defence readiness and military capabilities adequate to deter aggression and intimidation, without seeking military superiority; the continuance of a strategy of deterrence and defence, based on an adequate mix of appropriate nuclear and conventional forces, only the nuclear elements of which could confront a potential aggressor with an unacceptable risk; the presence in Europe of US conventional and nuclear forces, which embodied the US commitment to the defence of Europe and provided the indispensable link with the US strategic deterrence; and European forces, without which the credibility of the Western strategy of deterrence and defence could not be maintained.

Since WEU ministers were convinced that a more united Europe would make a stronger contribution to the Alliance for the benefit of Western security as a whole, they were resolved to strengthen the European pillar of the Alliance by continuing their part in the efforts to improve conventional defence while carrying on their share in the nuclear field by pursuing co-operative arrangements with the United States and by maintaining and preserving British and French nuclear forces.

In order to pursue European integration and to make a more effective contribution to Western defence, WEU ministers agreed among other things that they would make manifest their determination to defend any member country, would improve consultation and extend co-ordination in defence and security matters, and would aim at expanding bilateral and regional military co-operation. They also agreed to concert their policies on crises outside Europe when these affected European security interests.

On arms control and disarmament, WEU ministers said that they would pursue an active policy aimed at influencing future developments in such a way as to enhance and foster stability and co-operation in the whole of Europe. 'The steadfastness and cohesion of the Alliance and close consultations among all the Allies remain essential if concrete results are to be brought about,' the 'Platform' stressed. They were committed to elaborate further the comprehensive concept of arms control laid down in the Alliance's declaration in June (see pp 230-2), and noted that an agreement between the United States and the Soviet Union for the global elimination of land-based intermediate-range nuclear (INF) missiles would be an important element of this.[1]

They would also exploit all opportunities to make further progress towards arms reductions, compatible with Western security and priorities, taking into account that work in this area raised complex and inter-related issues.

The Hague document also said that, since the Helsinki Final Act provided a guide to the fulfilment of the objectives of gradually overcoming the division of Europe, the WEU countries would continue to make full use of the Helsinki process in order to promote comprehensive co-operation among all states, by seeking to increase the transparency of military activities and behaviour through further confidence-building measures in accordance with the 1986 Stockholm Document (see pp 317-19, 1986); pursuing efforts that would lead to full respect for human rights; trying to open up avenues in the fields of economy, technology, science and the protection of the environment; and expanding the opportunities for European people to travel, to exchange opinions and information, and to intensify cultural contacts.

[1]Following a meeting in Washington on 30 October, the United States and the Soviet Union announced that the US president and Soviet leader would attend a summit meeting in Washington on 7 December to sign an agreement totally eliminating Soviet and US intermediate-range and shorter-range missiles. It was also agreed that the summit would consider a treaty reducing strategic nuclear weapons by 50 per cent, as well as discuss the observance of and non-withdrawal from the 1972 Anti-Ballistic Missile Treaty for an agreed period. Unanimous support for an INF treaty was expressed by defence ministers representing the other members of the Alliance during a meeting of the Nuclear Planning Group in the United States in November.

Middle East

The need for an international conference on the Arab-Israeli dispute and for a negotiated settlement to the Iran-Iraq war through the United Nations Security Council was the main theme of a speech by the Foreign and Commonwealth Secretary, Sir Geoffrey Howe, to the Jordan-British Society in Amman on 1 November.

Arab-Israeli Dispute

Sir Geoffrey praised Jordan's enormous contribution to efforts to achieve peace in the region, and in particular King Hussein's courageous efforts to achieve an international conference on the central Arab-Israeli dispute, a proposal which Britain and all the European Community had also endorsed (see pp 90-1). Sir Geoffrey emphasised that Britain did not approach the subject with a closed mind or with an eye on any special British interest. Britain would look at any avenue which might lead to peace, but after a sustained and vigorous examination of all other ideas saw no valid alternative to an international conference under United Nations (UN) auspices, an idea which already enjoyed wide support.

A peace settlement had to guarantee the security of all states in the region including Israel, and had to address the legitimate rights and aspirations of the Palestinian people, including their right to self-determination. It was necessary now to give those principles a new sense of urgency, which would require hard decisions by all concerned, and both sides would have to abandon some cherished dreams. Terrorism, armed struggle, economic sanctions or maintaining the status quo would only prolong the cycle of misery and violence.

Britain shared Jordan's deep concern for the welfare of Palestinians living in the occupied territories; British aid to Palestinians in the territories had doubled and would be worth £5 million over the next five years, half to be channelled through Jordanian institutions and the other half direct through non-governmental organisations. Scholarships and training for young Palestinians formed a major part of British assistance. Britain had also been instrumental in opening up Europe's markets to produce from the occupied territories, and had urged Israel to improve conditions and respect human rights there.

Iran-Iraq Conflict

Sir Geoffrey said that the Gulf War contained two very different elements: Arab socialism and militant Islam. The only possible result of the confrontation between them was an explosion which risked destabilising the whole Arab world.

Britain's policy towards the conflict had always been one of strict impartiality, seeking only to reduce tension and help resolve the region's problems. But Britain would stand firm against attacks on its own interests or acts of aggression against international shipping. This was why Britain had actively supported international efforts to uphold freedom of navigation ever since the conflict spread into the Gulf, where British naval forces had been present since 1980.

Britain had also always been at the centre of the search at the UN for a negotiated settlement through the Security Council. Resolution 598 (see pp 253-4) was a major achievement, and Britain was determined to build upon it. A twin-track approach was the best way forward. The Secretary-General would continue his efforts to get the resolution implemented, and the five Permanent Members of the Security Council had to start work on enforcement measures, to be applied if those efforts failed. 'Both Iran and Iraq must be made to realise that the international community's patience is exhausted and that time is running out. They both have a legal obligation to implement 598. If they refuse to do so, then they must face the consequences.'

Sir Geoffrey said that the Arab Summit which was to be held soon in Amman could make a positive contribution towards peace in the Gulf, not least by sending a clear message to Moscow that Soviet foot-dragging at the UN over enforcement measures had to come to an end. The Russians had no right to chastise Britain for looking long and hard at their proposals for a UN naval force, for that was a new idea, full of political and practical difficulties, whereas the work at the UN on enforcement measures was something on which the five Permanent Members were already agreed.

The meeting of the foreign ministers of the five Permanent Members of the Security Council at New York on 25 September was the first such meeting for 15 years, but if the UN was to succeed in promoting world peace it was essential that the five Permanent Members should be able and willing to work together. It was a moment of importance for history to have the five Permanent Members agreeing in this way to do what was necessary to ensure compliance with Resolution 598.[1] That moment of unity must be used to recreate the effectiveness of the UN, in ending the Iran-Iraq conflict which had already cost over a million lives.

Cyprus

Britain's support for United Nations efforts to find a solution to the problem of Cyprus was reaffirmed by the Government in a response to a report from the House of Commons Foreign Affairs Committee.[2]

Government Response

Noting the Committee's suggestion that the British Government should be prepared to adopt a higher profile in the search for a solution and should invite the Greek and Turkish Governments to discuss, as guarantor powers, the current situation, the Government says that it would not be appropriate to propose

[1] In a statement issued after the meeting, the five Permanent Members stated that they regarded Resolution 598 as the sole basis for a comprehensive, just, honourable and durable settlement of the conflict, and stated their determination to continue to work with each other within the Security Council on ways and means to secure full and rapid implementation of the resolution and on further steps to ensure compliance with it.

[2] *Cyprus.* Observations by the Government on the Third Report from the House of Commons Foreign Affairs Committee, Session 1986-87. Cm 232. HMSO, £1·30. ISBN 0 10 102322 7.

such discussions now. It was in frequent contact with both governments through ministerial meetings and diplomatic channels but continued to believe that the United Nations Secretary-General's mission of good offices (see below) provided the best prospect for progress towards a peaceful, just and lasting settlement. 'In our view any independent action could only distract attention from the Secretary-General's mission involving both communities in the island, and cut across it, rendering his task harder.' The Government also considered that its contribution to the United Nations Force was vital in providing support for the Secretary-General's initiative.

Turning to the question of the Turkish Cypriots, the Government says that their action in declaring 'independence' in 1983 (see pp 422-25, 1983) had not been recognised by the international community and that formal recognition of the 'Turkish Republic of Northern Cyprus' could only cement the island's divisions and make a settlement harder to achieve. Britain, while not recognising the 'Turkish Republic of Northern Cyprus', acknowledged the interests and aspirations of the Turkish Cypriots and had always taken the view that their isolation would not help towards a settlement. 'We have therefore continued to encourage trade with the Turkish Cypriots and to maintain normal facilities for Turkish Cypriots to enter the United Kingdom.' Some other contacts with northern Cyprus were not possible since any airline wishing to land in Cyprus required the permission of the Cyprus Air Transport Licensing Authority and such permission was not granted in respect of airports in the north.

British aid programmes to Cyprus, stresses the Government, also applied to the Turkish Cypriots. Provision had been recently increased for the Foreign and Commonwealth Office's Scholarship and Awards Scheme intended to improve the opportunities for Turkish and Greek Cypriots to obtain higher education in Britain. Although direct aid to the 'Turkish Republic of Northern Cyprus' was precluded, technical assistance in the field of education was possible and high priority was attached to improving English language teaching among both Cypriot communities. The current programme in this field was directed chiefly towards the Turkish Cypriots because their need was greater. Britain also contributed to European Community aid programmes to the island; such assistance was, however, provided only for projects of benefit to the island as a whole.

On the issue of contacts between Cyprus and the European Community the Government welcomes the recent initialling by the European Commission and a Cypriot delegation of a draft additional protocol to the European Community-Cyprus association agreement providing for transition to customs union between Cyprus and the Community. Achievement of such an agreement had been a long-standing British objective and Britain was satisfied that the customs union would apply to the whole island since the agreement stipulated that it should not give rise to discrimination between nationals or companies of Cyprus.

The further development of the association agreement between the Community and Turkey offered the best means of normalising Turkey's relations with the Community and the best framework for continued dialogue between Turkey and the Community on the entire range of their relations. In September 1986, Britain, as President of the Council of Ministers, had repeated to the Turkish Government the Community's concern over the Cyprus problem and its strong support for the UN Secretary-General's efforts to find a lasting settlement. Britain considered that it would be wrong to make any comment on Turkey's application to join the Community before the Commission gave its opinion on it.

Background

The Cyprus problem has arisen because of the existence of two distinct Greek and Turkish Cypriot communities on the island. When Cyprus became an independent state in 1960 tension between them increased and culminated in serious intercommunal fighting in December 1963. In March 1964 a United Nations peacekeeping force was established by the Security Council and the UN Secretary-General designated as a mediator to promote a peaceful solution.

Despite these efforts no settlement was reached over the next ten years. On 20 July 1974 the then President (Archbishop Makarios) was overthrown in a coup and five days later Turkey landed troops in the north of the island which has been effectively partitioned ever since. In February 1975 the Turkish Cypriots constituted a Turkish Federated State of Cyprus which was not recognised by any country with the exception of Turkey. In June 1983 the Turkish Cypriot Assembly asserted the right to self-determination and on 15 November the Turkish Cypriots issued a declaration purporting to create an independent state in north Cyprus called the 'Turkish Republic of Northern Cyprus'. Because the British Government favours a united federal Cyprus, Britain drafted and secured the adoption of a resolution by the United Nations Security Council deploring the Turkish Cypriot action and declaring it to be legally invalid (see p 424, 1983).

Since 1964 successive UN Secretaries-General have made efforts to secure a settlement to the Cyprus dispute through intercommunal talks. The present UN initiative began in June 1984 and in December the Secretary-General secured agreement to a 'high level' meeting between Greek and Turkish Cypriot leaders which took place in January 1985 in order to agree his draft framework for a comprehensive settlement. Agreement, however, was not reached and neither of the subsequent revised frameworks produced in April 1985 and March 1986 gained the acceptance of both sides.

Because of Britain's historical association with Cyprus and the 1960 Treaty of Guarantee (see p 422, 1983), both Greek and Turkish communities look to Britain to contribute to a settlement of the Cyprus dispute. Under the 1960 Treaty of Guarantee Britain is a guarantor power, together with Greece and Turkey, of the Republic's constitutional arrangements. Britain is the largest contributor to the UN peacekeeping force in terms of men (765 out of 2,300) and contributes £25 million per annum to the cost (out of about £65 million). It is thought that there are between 25,000 and 30,000 Turkish troops in northern Cyprus, together with around 4,500 Turkish Cypriot troops. There are about 2,000 to 3,000 mainland Greek troops on the south of the island and 10,000 Greek Cypriot troops. Britain believes that troop withdrawals should form part of a comprehensive settlement.

British Aid Policy

The Government's commitment to promote economic and social progress and alleviate poverty in developing countries was reaffirmed in October in a reply to the House of Commons Foreign Affairs Committee's report on bilateral aid, which was published in April.[1]

The Government's Aid Objectives

Welcoming the Committee's report, the Government stated that the basic purpose of the aid programme was to 'promote sustainable economic and social progress and alleviate poverty in developing countries'. The Government's reply explained in some detail what that policy meant in practice and how, alongside that fundamental objective, political and commercial considerations were also being taken into account.

General Aid Policy

The Committee was concerned that the influence of commercial objectives in the planning of aid would lead to the adoption of the wrong priorities for project selection and country allocation, and that projects, for example, which had a high benefit for British commercial interests were generally less likely to be directly beneficial to the poor. In the Government's view, the objectives of Britain's bilateral aid programme were not divisible or separate and the main objective – the promotion of development – was compatible with serving political, industrial and commercial interests. 'Development', the Government said, 'has many faces, among them, social, humanitarian, political and commercial . . . . [It] is concerned with sustainable, long-term benefits rather than transient, short-term ones; with political stability rather than short-term popularity; with the development of markets rather than the securing of an order.'

Development assistance was appropriate where there was a need, but not for richer developing countries which could finance their own development plans. Both skills and finance were needed by the poorer countries if they were to develop into stable, sensibly managed trading partners. The promotion of development meant providing more outside help to poor countries than to less poor ones. The Government also believed that the volume and terms of the finance made available for helping developing countries' public investment programmes were crucial factors in their development, and that was why Britain continued to provide a large aid programme, currently the sixth largest in the Organisation of Economic Co-operation and Development (OECD).

The long-term alleviation of poverty, the Government continued, required economic growth to enhance employment opportunities and create the wealth necessary to improve the provision of resources to the poor. Much also could be done directly to help the poor participate in and benefit from the process of development; in support of this the Overseas Development Administration (ODA) was committing funds especially in the natural resources and social sectors and in conjunction with the voluntary agencies. An appropriate policy framework in the recipient country was necessary if aid was to succeed in promoting sustainable growth. Such frameworks, which were discussed between the British Government, the international financial institutions and other donors with the recipients, had to include 'a soundly based investment programme limited to projects and programmes which [could] be successfully implemented and sustained; concern for the environment and for the development of human resources; and the creation of a climate in which initiative and enterprise [could] flourish'. Development assistance had to be a partnership between donor and recipient and Britain supported technically sound, financially viable activities which would bring economic benefits. Through education and manpower assistance and training, as well as through consultants and contractors, Britain sought to promote learning, enhance management and technical skills, strengthen local institutions, and increase opportunities for the individual. Since some developing countries were facing an urgent need to adjust their economies to permanent changes in the world economy, the Government had been providing substantial amounts of aid in support of adjustment programmes agreed with the International Monetary Fund (IMF) and the World Bank, making sure that the special needs of poor and vulnerable groups were taken into account through the provision of primary education, health care and safe water supply.

The ODA used a wide range of aid instruments all of which ultimately contribute to the promotion of development, the Government pointed out. These were programme aid which provided balance-of-payments support to enable the urgently wanted imports to be purchased and which was normally provided in support of an economic-reform package; project aid, including the Aid and Trade Provision (ATP),[1] which would involve the creation of infrastructure such as new roads, or new productive capacity such as power stations or the rehabilitation of existing capital assets (such as repairs to roads and machinery); budgetary aid, given to some British dependencies and recently independent countries; and technical co-operation, which transferred skills through advice and training. In practice these instruments were closely interrelated, so that, for example, project aid and technical co-operation were frequently offered together with the objective of ensuring a sustainable investment.

In seeking a statement of objectives for bilateral aid the Committee had referred to the change in circumstances facing many developing countries since the mid-1970s. The Government said that this took place, in particular, in those countries in sub-Saharan Africa where a combination of inappropriate policies and deteriorating terms of trade, exacerbated by drought and famine, had led in many countries to a fall in income and consumption per head and a failure of food production to keep pace with rapidly growing populations. The objective of its bilateral aid programme in this area was to 'achieve a reversal of this decline, to restore growth prospects and to alleviate poverty and human suffering'.

Within the Development Assistance Committee of

[1] *Bilateral Aid: Country Programmes.* Observations by the Government on the Second Report from the House of Commons Foreign Affairs Committee, Session 1986-87. Cm 225. HMSO, £2·60. ISBN 0 10 1022522. The Foreign Affairs Committee's report with appendices together with the proceedings of the Committee, minutes and appendices was published on 22 April 1987. (For publication details see p 245.)

[1] ATP provides aid in combination with export credits to support sound development projects which offer commercial opportunities to British exporters.

the OECD the ODA had been discussing with the other aid agencies the possibility of measuring the achievements to which aid contributed through performance indicators and targets (including economic performance indicators and social indicators such as life expectancy and infant mortality) to be agreed at the country level between donors and recipient governments. Britain considered this worth pursuing, since it offered the prospect of a much wider understanding of the ultimate objectives of both development and aid.

Aid was only one aspect of Britain's economic relations with developing countries, as the Committee itself noted. Increasing prosperity for developing countries, the Government pointed out, depended upon sustained growth in the world economy, upon an improved international trading environment, and upon a resolution of the current debt problems; through its economic and trade policies the Government was working to create a healthy and expanding economy in Britain and overseas and a liberal international trading environment.

The Government was also playing a leading role in the international discussions on debt and world trade, pressing for improved access to markets in the General Agreement on Tariffs and Trade Uruguay Round (see p 328, 1986); for the removal of distortions in world agricultural trade; and for greater efficiency in and deregulation of commodity markets. Action on these questions would contribute to the efficiency of the world economy as a whole, and enhance the economic environment in which developing countries operate. Since many developing countries were now carrying a severe burden of debt, a sustained recovery of the world economy, combined with the adoption of domestic policies under the aegis of the IMF and the World Bank, would allow middle-income debtors which had borrowed mainly from commercial banks to take advantage of export opportunities and attract capital inflow. To help the poorer developing countries which relied on the international donor community for a significant part of their external financing, Britain had contributed substantial amounts through the European Community and other international development agencies such as the World Bank's International Development Association. For the poorest and most heavily indebted sub-Saharan countries which were following appropriate policies, the British Government had taken the initiative in suggesting that aid should be converted to grants – a process Britain had almost completed for these countries – and that other official bilateral debts could be rescheduled over a longer period with more generous grace periods and at concessional rates of interest (see pp 154-5 and 315-16).

Other Observations

The Government agreed with the Foreign Affairs Committee's conclusion that development aid was not in principle harmful or ineffective and that any failures could generally be ascribed to errors in planning or in execution of a project. Experience, the Government observed, had shown that major investment decisions could not be taken in a hurry or without complete satisfaction as to the economic, financial and technical soundness of a proposal. 'The short-term benefit of making the (always popular) decision to commit resources can quickly be overtaken by the cost to Britain's political and commercial interests of involvement with a poorly designed or executed project.' The effectiveness of aid, the Government added, should be judged not only by the success or otherwise of individual aid-funded activities, but also by the extent to which donors' aid efforts were complementing the recipients' own domestic policies and programmes and leading to progress.

Aid and Trade

Although the Committee recommended no change in existing guidelines on the tying of bilateral aid under which goods and services funded by it are generally British and provided by British firms, it thought that the responsibility for the ATP budget ought be with the Department of Trade and Industry on the grounds that these funds generally went to relatively better off developing countries (mainly in South-East Asia) rather than to priority countries in Africa, and represented aid to a company rather than to a country. However, the ATP, the Government believed, should continue to be seen as an integral part of Britain's overseas aid efforts, ATP funds being provided on concessional terms to the recipient government to help sound investments within its country. In each case there had to be a reasonable assurance of economic, financial and technical soundness. ATP funds, which were not given to British companies, represented a transfer of resources to the country concerned in the same way as other aid funds did. Furthermore, other countries provided similar forms of soft finance from their aid programmes. The ATP was also an integral part of the British aid programme in a number of poor but creditworthy countries like the People's Republic of China, India and Indonesia; it would be both difficult to disentangle the ATP from the aid programme and confusing for Britain and its recipients if the responsibility for this part of ATP was handled by the DTI and the development aspect by the ODA. The Government did not accept that there was any need for conflict between the commercial and other objectives of ATP, since Britain's commercial interests were best served by promoting prosperity overseas and by supporting successful projects which would also enhance the reputation of British firms.

Political Objectives

In its report, the Foreign Affairs Committee concluded that the Government should use the limited funds available for bilateral aid in a way which would seek to maximise the political benefit to Britain, provided that this did not impair the quality of development. The Government, while agreeing that aid could bring political benefits, recognised that not all short-term political pressures were in the best interests of sound long-term development. There was also agreement on the need to continue preference to developing countries of the Commonwealth since its long association with these countries meant that Britain was often best placed to help, particularly in the fields of manpower assistance and training.

The political advantages of maintaining a programme in as many countries as possible was recognised by the Government, but there were some disadvantages. Britain had at present one of the most widely scattered aid programmes, and this meant that it had to be spread thinly, with some of Britain's smaller aid recipients having no significant programmes at

all. Therefore, over a period, the Government said, it could be sensible to diminish the geographical coverage and focus any additional money on countries with the greatest need so as to achieve a more effective impact, while of course fulfilling its obligations to the smaller poor countries.

On the relevancy of the human rights record of a country in setting the size and nature of British aid, the Committee considered that a poor record ought not be regarded as an overriding objection to the establishment of an aid programme, provided that this did not give support to policies which were being criticised and was effective in assisting people in need. Respect for human rights was one of several factors taken into account when determining the level and nature of bilateral aid to a particular country, the Government pointed out, and Britain was committed to the declaration on human rights which the European Community adopted in July 1986. This stated that members of the European Community would continue to promote fundamental rights in the development of relations, including the administration of aid, with non-member states.

The Committee also suggested that the two objectives of humanitarian and development assistance ought to be treated more discretely, so that any increase in emergency relief funds would not come from a decrease in development funds. However, the Government pointed out that the aid programme was such that it was able to respond quickly and effectively to developing countries' diverse and changing needs. Unnecessary inflexibility in the use of aid funds would be imposed if humanitarian assistance was separated: already there was a separate allocation within the aid programme for Britain's food aid programme to finance its share of a European Community obligation under the Food Aid Convention. It was the Government's policy that emergency needs should be a first call both on this allocation and on the much larger food aid programme which was administered directly by the European Commission, the British share of which was attributed to the Government's aid programme. Because the aid programme was managed flexibly as a single block budget it was possible to provide funds to areas of high priority, including emergency relief. Britain had been able to respond generously to the African famine from within existing aid resources without cutting planned development activities elsewhere.

The Government agreed with the Committee on the need for a recipient country to have a satisfactory domestic policy environment for aid to be effective. Britain was providing programme aid assistance for essential imports to many poorer countries which were having economic difficulties but were adopting appropriate policy responses. However, the Government continued, while aid should be withheld if it could not be productively spent, Britain considered that, even where a country was pursuing inappropriate policies, some form of assistance, such as technical co-operation, could be effective.

Rural development ought to be a high priority for the ODA in its bilateral country programmes, the Committee concluded. In reply the Government stated that that was and would continue to be the case (particularly in sub-Saharan Africa), especially with regard to the development of renewable natural resources. It also welcomed the encouragement provided by the Committee to the ODA to continue to place stress on the importance of environmental factors in the aid programme. A number of initiatives had been taken recently, the Government said, including a study (likely to be done in Nepal), conducted jointly with the World Bank, to examine and to improve the understanding of the linkages between natural resources degradation and national economic and other policies.

Noting that all the countries and territories in receipt of budgetary aid were small islands and that their economies were less likely to be able to develop sufficiently to keep up with the world economic situation, the Committee therefore supported the *de facto* practice under which the smaller Commonwealth countries of the Caribbean and the South Pacific received, for the most part, the highest per capita allocation of British aid. Britain, the Government said, would continue to keep the needs of these countries under review, taking account of their relative prosperity, the size of the overall aid programme and the support they were receiving from other donors in their regions. The Government welcomed the Committee's endorsement of the proposed special fund for Tuvalu, one of these small islands; under an agreement, signed by Britain, Australia, New Zealand and Tuvalu in June, a trust fund (to which Britain had made a contribution of £3·7 million) had been established under which the income from it would replace budgetary aid.

Voluntary Agencies and the Private Sector

The Government accepted the Committee's recommendation that there should be a moderate increase in the proportion of bilateral aid channelled through voluntary agencies. These agencies, it said, had an ability to reach some of the poorest communities in ways which were not always open through government-to-government aid, and it was through them that much of the aid in disaster and refugee work was channelled. Britain also supported their long-term projects through the joint funding scheme under which the ODA met half of the cost; this scheme had been increased to £6 million in 1987-88 and the Government would increase it further by 50 per cent to £9 million in 1988-89. From its bilateral aid programme, the Government provided up to 90 per cent of the income of four British volunteer recruitment agencies which would have about 1,500 volunteers in the field in 1988.

The Foreign Affairs Committee recommended that the ODA ought to examine further the use of the private sector for delivering aid. In reply, the Government said that direct foreign investment and indigenous private enterprise had an important role to play in developing countries. The Commonwealth Development Corporation, which received substantial aid support, could invest directly in the private sector, while bilateral country programmes could also facilitate direct private investment by helping to create the right environment, by improving the infrastructure necessary for such investments to take place and by providing finance for joint ventures. However, aid could not be used to displace more appropriate direct foreign investment, nor to encourage recipient government participation in joint ventures which would otherwise be left to the private sector, nor to subsidise British direct investment which was the responsibility of companies using commercial judgments.

Cultural Diplomacy

The Government believes that cultural diplomacy should be a central element of Britain's diplomatic effort in pursuing British interests more effectively. Its views on the role and funding of the cultural diplomacy programme were published in October in its observations on a report produced by the House of Commons Foreign Affairs Committee in May.[1]

Cultural diplomacy helped to make Britain and British standards better known and understood, the Government said. It also promoted British values, such as attachment to individual liberty and concern for justice, which if more widely accepted would make the international community an easier one to live in. Cultural diplomacy also had cultural goals; Britain was enriched by the exchange of academic and cultural experience with other nations, and it was important that British excellence in the arts should be more widely known. British cultural achievements enhanced Britain's standing in a world where it could no longer take recognition and respect for granted.

The Government did not share the Committee's view that there was a fundamental difference between the objectives of cultural diplomacy and those of other forms of diplomacy. Their activities might be different, but the underlying purpose was essentially the same: the vigorous promotion of British interests. All forms of diplomacy had long-term as well as short-term objectives, and related in the end to fundamental interests such as international peace and national security, and increased prosperity through international trade and through the promotion of economic development in less-favoured countries.

Given the integrated effort of Britain's diplomatic missions overseas, it was very difficult to distinguish what proportion of their activity was cultural, and it was not practical to separate out the different functions of diplomacy in this way. Funding for cultural diplomacy came from public expenditure provisions made to cover the whole of Britain's diplomatic activity, and it was neither useful nor possible to establish a separate budget for cultural diplomacy. The Government did not consider that there was any 'correct proportion' to be maintained between cultural diplomacy and other activities which came within the Foreign and Commonwealth Office (FCO) budget. The amount of money to be devoted to the projection of British cultural values overseas had to be determined on its merits, as circumstances developed and changed, and not by the calculation of a fixed percentage of diplomatic costs overall.

Although the Committee wanted more money to be devoted to cultural diplomacy, and particularly to the arts, decisions on the allocation of resources had to be taken within the framework of the Government's overall policy that public expenditure should not rise as a proportion of gross national product, and bearing in mind that the Government believed that private enterprise should play a greater part in the promotion of the arts both at home and abroad. The Government did not believe that extra resources should be found for cultural diplomacy from within the FCO's allocation, for this would be at the expense of other diplomatic activities such as protecting British subjects overseas, promoting British exports, and promoting Britain's commercial, political and strategic interests.

The extent of Britain's cultural diplomacy was determined finally by relative needs and opportunities, and by the availability of resources. As circumstances altered, the Government might wish to spend more, or to change the emphasis of what was spent, and global diplomatic priorities were constantly being reviewed. The Government concluded its observations by stating that it would never be possible nor right for Government to finance everything, and skilful choice would always be necessary.

[1] *Cultural Diplomacy*. Observations by the Government on the Fourth Report of the House of Commons Foreign Affairs Committee, Session 1986-87. Cm 231. HMSO, £1·30. ISBN 0 10 102312 X. For the report, see p 245.

Shorter Note

CARIBBEAN DEVELOPMENT BANK

Subject to parliamentary approval, Britain is to contribute $15 million (almost £9·3 million) to the second replenishment of the Caribbean Development Bank's Special Development Fund.

Announced at a recent meeting in Barbados, the British pledge forms part of a total of $122 million pledged by all donors; an additional $10 million is being provided by the Bank from internally generated funds. This second replenishment will cover the years from 1988 to 1991 and will be allocated mainly to the poorer Caribbean countries.

Britain is a founder member of the Bank set up in 1969 to provide development financing for countries in the region. The Special Development Fund lends at low rates of interest combined with long repayment periods. The first replenishment amounted to $89·5 million, of which Britain contributed $10 million.

Source: Overseas Development Administration press notice, 22.10.87.

Chancellor's Autumn Statement

The Government's success in holding down public borrowing had enabled it to provide for increases in expenditure in priority areas, the Chancellor of the Exchequer, Mr Nigel Lawson, announced in his autumn statement to the House of Commons on 3 November. However, with the economy continuing to grow, public expenditure would go on declining as a proportion of national income. Although the deficit on the current account of the balance of payments seemed likely to increase in 1988, growth at the forecast rate of 3 per cent in the non-North Sea sector of the economy should secure a continuing fall in unemployment.

AUTUMN STATEMENT

The Chancellor was making the customary autumn statement on the expected outturn for public expenditure in the current financial year and government plans for the next three, as well as changes in National Insurance contributions for the following financial year (*Hansard*, Vol 121, No 36, cols 783-800). He was also publishing the economic forecast for the next calendar year as required by the Industry Act 1975 (see p 487, 1975). These are brought together in a single document.[1]

Public Expenditure and Receipts

The public expenditure planning total in 1987-88, Mr Lawson began, now looked likely to amount to £147,600 million (see Table 1) – around £1,000 million less than allowed for in the last public expenditure White Paper.[2] The main reason for the shortfall was higher than expected capital receipts by local authorities and new towns. Apart from this, total spending on programmes was likely to be broadly in line with plans. After taking account of miscellaneous items not included in the planning total, the expenditure shortfall was likely to be slightly more than £500 million.

On receipts (see Table 2), the Chancellor said that tax revenues were likely to be almost £2,500 million higher than forecast in the Budget.[3] 'This buoyancy reflects higher than forecast economic growth, greater than expected profitability and an oil price above the $15 a barrel assumed at the time of the Budget.'

Mr Lawson recalled that he had then set a public sector borrowing requirement (PSBR) for 1987-88 of some £4,000 million, equal to 1 per cent of gross domestic product (GDP). As a result of higher than expected tax revenues and lower than expected spending, he now felt that the PSBR might amount to only £1,000 million, equal to 0·25 per cent of GDP (see Table 3). This would be the third successive year in which it had been significantly below forecast. Privatisation proceeds had made an important contribution to the low outturn but, even without them, the PSBR would still have been its lowest for 17 years.

Turning to the public expenditure plans for the next three years (see Table 4), the Chancellor pointed out that, since 1982-83, public spending – both including and excluding privatisation proceeds – had been declining as a proportion of national income. A further substantial reduction was likely in 1987-88, making this the longest sustained fall in the proportion since the early 1950s. In July the Cabinet had reaffirmed the objective of ensuring that the ratio continued to fall and, in particular, that it did not exceed the levels published in the White Paper. The present plans achieved that objective.

New planning totals had been set at £156,800 million for 1988-89 and £167,100 million for 1989-90, representing increases of £2,600 million and £5,600 million respectively over the White Paper figures. For 1990-91 the planning total had been set at £176,100 million. For the later years larger reserves within the planning totals had been set aside than previously. The reserve would rise from £3,500 million in 1988-89 to £7,000 million in 1989-90 and £10,500 million in 1990-91. As in the White Paper, the planning totals also incorporated an estimate for privatisation proceeds of £5,000 million a year.

Public spending, excluding privatisation proceeds, as a share of national income would have fallen from nearly 47 per cent in 1982-83 to around 42·5 per cent in 1987-88; by 1990-91 the figure would be down to 41·25 per cent, the lowest since 1972-73. Each year's figures were lower than those published in the White Paper.

This progress had been based on the Government's success in bringing down the rate of growth in public spending. In the 1960s and 1970s public spending had increased by around 3 per cent a year in real terms. In the Government's first Parliament the rate of growth had averaged some 2·25 per cent a year and in its second Parliament just under 1·75 per cent. In the period 1987-88 to 1990-91 the annual rate was planned to be about 1·25 per cent, which would

[1] *Autumn Statement 1987*. HM Treasury. HMSO, £5·10. ISBN 0 10 211088 3.

[2] See article on pp 56-60, later reproduced as COI reference paper *Britain's Public Expenditure Plans 1987-88 to 1989-90*, No 240/87.

[3] See article on pp 129-34, later reproduced as COI reference paper *Britain's Budget 1987*, No 241/87.

Table 1
General Government Expenditure

£000 million

	1986-87 outturn	1987-88 forecast in 1987 Budget	1987-88 latest forecast
Public expenditure planning total	139·4	148·6	147·6
Interest payments	17·4	17·9	17·8
less public corporations' market and overseas borrowing	−1·5	−0·8	−0·7
Other adjustments	6·8	6·2	6·7
Total	165·1	173·5	172·8
of which			
Privatisation proceeds	−4·4	−5·0	−5·0

Table 2
General Government Receipts

£000 million

	1986-87 outturn	1987-88 forecast in 1987 Budget	1987-88 latest forecast
Taxes on income, expenditure and capital	119·6	127·8	130·1
National Insurance and other contributions	26·7	28·5	28·9
Interest and other receipts	13·4	12·6	12·3
Accruals adjustment	0·5	—	−0·2
Total	160·3	168·8	171·1
of which			
North Sea revenues	4·8	3·9	4·5

be well within the prospective growth rate of the economy.

While public spending as a whole was growing more slowly than previously, the substantial reduction in public borrowing had, by easing the burden of debt interest payments, increased the scope for spending on programmes. The Government had, therefore, again been able to provide additional resources – over and above those published in the White Paper – for a number of priority services.

An additional £700 million was being provided for the National Health Service (NHS) in England in 1988-89 and an extra £800 million in 1989-90. The NHS would also benefit from additional resources from cost improvement programmes and from land sales, enabling it to continue to improve services.

With regard to law and order, an extra 4,200 prison places would be made available by 1993. Provision for local authority spending on the police had also been increased significantly.

There had been a substantial rise in the provision for local authority current spending on education. In addition, an extra £60 million a year had been set aside for the improvement of school buildings. Spending on universities would be increased by £115 million in 1988-89 and by £130 million in 1989-90. There would be an additional £45 million in 1988-89 and £65 million in 1989-90 for science.

The gross provision for housing investment was being raised by nearly £400 million in 1988-89. This would not only sustain the rising trend of spending on local authority renovation but would also provide additional resources for housing associations, much of which would be used in conjunction with private finance. In order to help tackle the problems of the inner cities, provision for the urban development corporations was being increased by £65 million in 1988-89.

There would be substantial increases in the provision for social security spending – by £1,000 million in 1988-89 and by £1,900 million in 1989-90. This was partly because the take-up of benefits was likely to be higher than previously envisaged; it also took account of the uprating of benefits announced in October.

Defence spending would rise by £230 million in 1988-89 and by £490 million in 1989-90.

The additions to planned capital expenditure for the public sector as a whole would amount to some £1,000 million in each of the years 1988-89 and 1989-90. About half would be for the nationalised industries, mainly for the large investment programmes of the electricity and water industries.

Full details of the changes, together with information on running costs and manpower, would be given in the next public expenditure White Paper, to be published early in 1988.

National Insurance Contributions

Following the announcement on the uprating of social security benefits, Mr Lawson outlined the changes in the earnings limits for National Insurance contributions to take effect in April 1988. The lower limit for

Table 3
Public Sector Borrowing

£000 million

	1986-87 outturn	1987-88 forecast in 1987 Budget	1987-88 latest forecast
General government expenditure	165·1	173·5	172·8
General government receipts	160·3	168·8	171·1
General government borrowing requirement	4·9	4·7	1·7
Public corporations' market and overseas borrowing	−1·5	−0·8	−0·7
Public sector borrowing requirement (PSBR)	3·4	3·9	1·0
As a percentage of gross domestic product (GDP)	1	1	0·25
PSBR excluding privatisation proceeds	7·8	8·9	6·0
As a percentage of GDP	2	2·25	1·5

Table 4
Public Expenditure Plans from 1987-88 to 1990-91

£ million

	Estimated outturn 1987-88	Plans 1988-89	1989-90	1990-91
Ministry of Defence	18,950	19,210	19,960	20,560
Foreign and Commonwealth Office				
Diplomatic wing	700	720	740	760
Overseas Development Administration	1,330	1,430	1,500	1,550
European Community	1,400	800	1,470	1,320
Ministry of Agriculture, Fisheries and Food	2,130	2,210	2,330	2,500
Department of Trade and Industry	920	1,230	1,190	1,140
Export Credits Guarantee Department	160	130	140	120
Department of Energy	280	120	−190	−420
Department of Employment	4,100	4,250	4,300	4,360
Department of Transport	4,800	5,150	5,110	5,210
Department of the Environment				
Housing	2,520	3,020	3,000	3,040
Other environmental services	4,020	3,820	4,000	4,110
Home Office	5,790	6,060	6,310	6,480
Legal departments	880	970	1,040	1,100
Department of Education and Science	17,170	17,960	18,630	19,160
Office of Arts and Libraries	890	900	940	970
Department of Health and Social Security				
Health and personal social services	19,560	20,680	21,670	22,650
Social security	46,400	48,500	51,200	53,700
Scotland	8,220	8,510	8,600	8,770
Wales	3,310	3,450	3,550	3,660
Northern Ireland	4,890	5,130	5,310	5,470
Chancellor's departments	2,310	2,460	2,600	2,690
Other departments	1,450	1,640	1,660	1,730
Reserve	—	3,500	7,000	10,500
Privatisation proceeds	−5,000*	−5,000	−5,000	−5,000
Adjustment	350†	—	—	—
Planning total	147,600	156,800	167,100	176,100
General government gross debt interest	17,800	18,000	18,000	18,000
Other national accounts adjustments	7,400	8,000	8,000	8,000
General government expenditure	172,800	183,000	193,200	202,100

*This assumes the full proceeds of the first instalment of the BP share offer (see p 370). If some of the shares are purchased by the Issue Department of the Bank of England and are still held by it at the end of the financial year, the effect would be to reduce privatisation proceeds and to increase the planning total, general government expenditure and the PSBR by the same amount.

†For the difference between the assessment of the likely outturn and the sum of the other items shown.

Note: Differences between totals and the sums of their component parts are due to rounding.

Table 5
Economic Prospects

	1987	1988
Output and expenditure at constant 1980 prices (percentage increase on previous year)		
Domestic demand	4	3·5
of which		
Consumers' expenditure	5	4
General government consumption	0·5	0·5
Fixed investment	5·5	4·5
Exports of goods and services	5·5	2
Imports of goods and services	6·5	5
Gross domestic product		
Total	4	2·5
Manufacturing	5	3·5
Balance of payments		
Current account (£000 million)	−2·5	−3·5
Inflation		
Retail prices index (percentage increase between fourth quarters of successive years)	4	4·5

Class 1 contributions[1] would be raised from £39 to £41 a week, in line with the single person's pension, while the upper limit would be increased from £295 to £305. The upper limit for the 5 per cent contribution band would be raised from £65 to £70 a week and that for the 7 per cent band from £100 to £105. The upper limit for the 9 per cent band (for employers' contributions) would be increased from £150 to £155 a week.

The Treasury supplement to the National Insurance Fund would be reduced from 7 per cent to 5 per cent but this would not require any change in contribution rates.

Economic Forecast

Presenting the Industry Act forecast (see Table 5), the Chancellor said that growth in 1987 was likely to amount to 4 per cent compared with the 3 per cent he had forecast in the Budget. This was well above the trend rate of growth in the steady upswing that had begun in 1981 and higher than the rate in any other major economy. Strong growth in domestic demand had been more than matched by the rapid rise in exports. Manufacturing industry had done particularly well, with output rising by 5 per cent in 1987.

This strong performance had led to a fall in unemployment of more than 4u0,000 over the last year – the largest 12-monthly decline on record. Unemployment had been falling faster in Britain than in any of the other major economies (see p 378).

Inflation in the fourth quarter of 1987 was likely to be 4 per cent at an annual rate with the deficit on the current account of the balance of payments this year amounting to some £2,500 million, equal to about 0·5 per cent of GDP. These figures were as forecast in the Budget.

[1]There are four classes of National Insurance contribution. Class 1, paid by employees and employers, covers the bulk of the working population. Two of the other classes cover the self-employed while the fourth may be paid voluntarily for pension purposes.

The prospect for 1988 was for a continuation of the steady growth with low inflation that Britain had now enjoyed for over five years. The present forecast took into account the likely implications of the recent falls in world stock markets (see pp 368-9) to the extent that it was possible to do so at this early stage. 'This is clearly a time when economic forecasting is a more than usually hazardous business. But what is clear is that the strength of the British economy, and of our public finances, puts us in the best possible position to weather any storm. And that strength will also enable us to play a full part in the international co-operation which is more than ever needed today.'

The economy was forecast to grow in 1988 by around 2·5 per cent. With North Sea oil output now declining, this implied growth of 3 per cent for the non-North Sea economy. Domestic demand should continue to expand, though more slowly than this year, with consumer spending and investment growing at a similar rate. Business investment was likely to perform particularly well, rising by 5·5 per cent.

With Britain continuing to grow faster than other major economies and with the oil surplus declining, a further small increase in the current account deficit was likely, to about £3,500 million, equal to 0·75 per cent of GDP.

Inflation might rise a little in 1988, reaching an annual rate of 4·5 per cent in the fourth quarter, by which time it should again be on a downward trend. 'The defeat of inflation remains at the heart of the Government's economic strategy', Mr Lawson declared.

With continuing healthy growth in 1988, the fall in unemployment should be maintained.

Conclusion

The progress and prosperity that he had described, the Chancellor concluded, demonstrated the soundness of the Government's policies since 1979. The Government would continue to pursue these policies. 'Despite the recent deterioration in the world economic climate, the prospect . . . is one of further sustained growth

and steadily rising living standards, with inflation low and unemployment continuing to fall. We have brought this about by promoting enterprise, sound money and strong public finances. And that is what we will stick to.'

OPPOSITION VIEWS

For the official Opposition, Mr John Smith accused Mr Lawson of saying very little about the real economy. The statement had been 'an exercise of complacency and self-congratulation'. Mr Smith expressed concern over the implications for unemployment of a fall in the growth rate between 1987 and 1988. He said that the Chancellor had missed an opportunity to increase public expenditure significantly at a time of pressing social needs.

Mr Alan Beith, for the Liberal Party, also expressed anxiety over the unemployment consequences of a declining growth rate. The statement failed to indicate what would happen if the United States, the Federal Republic of Germany and Japan did not make the economic adjustments Mr Lawson believed they should.

GOVERNMENT REPLY

In reply, the Chancellor explained that developments in the non-North Sea economy – where production was relatively labour-intensive and where more people were employed than in the North Sea – were the most relevant for employment prospects. A growth rate of 3 per cent in this sector would mean a continuing fall in unemployment and rise in employment.

Chancellor's Mansion House Speech

A significant reduction by the United States of its budget deficit was essential to a revival of market confidence following the dramatic declines in world stock markets, the Chancellor of the Exchequer, Mr Nigel Lawson, said at the Lord Mayor's Banquet for Bankers and Merchants of the City of London at the Mansion House on 4 November. As a result of the pursuit of sound policies over several years, the British economy was well able to withstand the repercussions of the financial disturbances.

Financial Collapse

The Chancellor began by paying tribute to the City of London for the manner in which it had conducted itself during the recent disturbances in stock markets (see pp 368-9). He also praised the way in which, in the midst of the turmoil, the BP share issue had been successfully underwritten (see pp 370-1).

There was a threefold explanation for the collapse in stock markets: in terms of financial markets; in terms of economic fundamentals; and in political terms.

First, market considerations dictated that the end of the longest sustained rise in share prices was bound to come sooner or later. Over the last five years, share prices in both London and New York had trebled in real terms. This clearly could not last even though few could have foreseen the speed at which the downturn would come.

Secondly, consideration of the economic fundamentals had for long shown the dangers to the world economy posed by the large imbalances afflicting the three largest economies. At the heart of the problem lay the huge deficits of the United States on its budget and on the current account of its balance of payments together with that country's shift from a large creditor position to one of rapidly growing domestic and external indebtedness. Then there was the counterpart in the form of the excessive current account surpluses of the Federal Republic of Germany and Japan. It was to deal with these world problems that the finance ministers of the major industrialised nations had intensified their co-operation over the past five years. For example, in New York in September 1985 they had agreed a major reduction in the exchange rate of the dollar (see pp 317-18, 1985) and in Paris in February they had decided to work together to bring about a period of exchange rate stability (see pp 95-6). However, the correction of the imbalances that had been allowed to arise was bound to take time.

Thirdly, there had been doubts about the political will of the United States to reduce further its budget deficit and to hold interest rates at a level necessary, not merely to maintain the dollar exchange rate, but also to ensure that the deficit was soundly financed. It was ironic, Mr Lawson observed, that the apparent unwillingness of the United States to raise interest rates because of an exaggerated fear of recession had led to a stock market collapse whose recessionary threat was very much greater.

However, even the financial crisis had some beneficial side effects. For example, in the United States a slowing in the rate of growth of domestic demand in relation to output was necessary in order to improve the trade balance; this was now likely to be achieved – and without an increase in interest rates that would have added to the burdens of the debtor countries. Also, the sudden reduction in the wealth of shareholders in the United States was likely to lead them to save an increased proportion of their incomes, thus enabling the budget deficit to be financed without further recourse to foreign borrowing.

United States Budget Deficit

Welcome though this was, a significant fall in the deficit remained crucial and was central to a restoration of market confidence. The Chancellor believed that the other major economies would make action on the deficit part of a wider international accord involving, among other things, a reduction in interest rates. He suggested that, if interest rates had been at appropriate levels three weeks previously, they were unlikely to be so now, after all that had happened in the interval.

Exchange Rates

Such an accord might also be an opportunity for the participants to reaffirm the February agreement on exchange rates, making whatever minor adjustments were necessary in the light of recent events. Indeed,

it had been the threat of a breakdown in this agreement that had been partly responsible for the collapse in the United States stock market. 'I profoundly hope and believe that that threat will not be invoked again', Mr Lawson declared.

Industrial Confidence

What was needed more than anything else was the avoidance of any major blow to industrial confidence. It was not the 1929 stock market crash that had caused the depression of the 1930s but the policy response to it: the failure to provide adequate liquidity to the banking system, leading to a spate of bank failures, which caused further monetary tightening; and the lurch into protectionism. The Chancellor expressed confidence that these dangers would now be avoided. President Reagan had stated his refusal to adopt protectionism and the United States authorities had acted quickly to supply liquidity to the banks. For his part, Mr Lawson had reversed, in two stages, the rise in interest rates that had taken place in August, the second reduction having been made that day.

Liquidity

On the question of liquidity, he pointed out that the maintenance of a stable exchange rate for sterling, within the framework of the February agreement, had meant a higher level of intervention by the monetary authorities than used to be the case. Official purchases of foreign currency to prevent an appreciation of sterling had had the effect of increasing Britain's official reserves. Concern had been expressed about this rise in liquidity and the government funding that would be needed to accommodate it. Any increase in liquidity would be fully funded – through government sales of stock – although not necessarily wholly within the same financial year. While this was in progress it would not be advisable to extract liquidity on a major scale.

The sterling exchange rate against the Deutsche Mark was of particular importance. A stable exchange rate, Mr Lawson explained, was good for industry and provided a firm guard against inflation. Britain now had very substantial reserves with which to maintain stability.

Wealth Effects

There would be some effects of the stock market collapse that the Government would be powerless to eliminate. These need not be large provided business and industry maintained the confidence that they had built up. In Britain any decline in spending as a result of a reduction in financial wealth might be welcome to the extent that it lowered the risk of an overheating of the economy and therefore of a resurgence of inflation. The wealth effect would be more evident in the United States, leading to a brake on world trade. But there was no reason to expect the effects on Britain to be substantial as British industry was increasingly able to compete in world markets.

There was no need for a negative or safety-first mentality on the part of business. Even though the market capitalisation of companies had declined dramatically in recent weeks, it was in most cases now much the same as a year ago, when there had been little concern on this score. 'The fact that share prices are at about the same level as they were a year ago is something that needs very much to be borne in mind when assessing the likely scale of the economic effects of the stock market falls', the Chancellor reminded his audience.

Conclusion

The general health and soundness of the British economy – not least the strength of the public finances – placed Britain in a good position to cope with the repercussions of these falls, Mr Lawson concluded. As a result of sound policies consistently pursued over a number of years, Britain was enjoying the benefits of a virtuous circle of economic progress. 'Low inflation, public expenditure under control and sound public finances have led to sustained growth and thus the ability progressively to lower tax rates, which in turn has brought about improved confidence and better business performance. This is not something that will be blown away by a financial blizzard, however violent it may seem at the time.'

Stock Markets

Progress towards providing the right climate for industry in Britain was the theme of a recent speech by the Chancellor of the Exchequer, Mr Nigel Lawson, in which he touched on the consolidation of London as a centre for financial services, the need for better relations between industry and the City, and the benefits of wider share ownership. He also commented that falls in the value of shares on world stock markets should present no fundamental problems to the international economy.

The Chancellor was addressing the Stock Exchange Conference for Industry on 26 October.

Share Price Falls

He began by referring to the steep falls in the value of company shares traded on major stock markets all round the world which had occurred in the week beginning 19 October.[1] Mr Lawson said that financial markets had a well-known tendency to overshoot. Over the past five years, share prices in both New York and London had more or less trebled in real terms, rising far faster than company profitability and creating a growing gap between the return on equities and the

[1]The first falls in share prices took place on the New York stock exchange where the principal index of the value of shares (the Dow Jones Industrial Average) fell by about 10 per cent over the three days 14-16 October. On 19 October, however, it fell by nearly 23 per cent. (For comparison, the fall which precipitated the 1929 'Crash' was 13 per cent in one day.) The equivalent index for the London stock market (the Financial Times Stock Exchange 100) fell by nearly 22 per cent over the two days 19 and 20 October. The Tokyo exchange was also badly affected but not so severely as the other two major exchanges. Share values all around the world remained uncertain in the following weeks. In Britain they were fluctuating around the level they had been at about a year earlier.

return on bonds.[1] 'It was neither unexpected nor in any way unprecedented that sooner or later there would be a sizeable correction,' he said. What had attracted attention was the speed of the correction once it had begun. He speculated that the rapidity of movement was an inevitable characteristic of global markets operating with modern information technology. Whatever the reason, the experience would have to be carefully analysed and the lessons drawn.

Meanwhile, Mr Lawson continued, market corrections of this kind did not imply that the world's economies were fundamentally unsound. So far as Britain was concerned the economy was in better health than at any time since 1945. This was not to say, however, that there was no cause for concern about the world economic scene. Mr Lawson had been a consistent critic of the United States budget deficit, and it seemed to him likely that its budget and trade deficits and its rapidly growing foreign indebtedness explained why the worldwide fall in share prices had begun on the New York stock exchange. He thought, though, that the level of co-operation which the finance ministers and central bank governors of the major economic powers had achieved over the past four or five years (see, for example, the Paris agreement, pp 95-6) would stand the international community in good stead now. What was most definitely not required in the present circumstances was a lurch into protectionism or undue monetary tightening. Such responses had, quite unnecessarily, turned the Wall Street crash of 1929 into the depression of the 1930s. He believed that the lesson of that experience had been widely learned.

As far as the present crisis in stock markets was concerned, the City of London had the opportunity to demonstrate that it was not simply a fair-weather market.

(For an amplified explanation of the falls on stock markets, see Mr Lawson's Mansion House speech on pp 367-8.)

Developing Financial Markets

Turning away from immediate events Mr Lawson noted the very conspicuous success of the financial services sector in recent years. Its contribution to national output had risen steadily, reaching 15 per cent in 1986, rather more than twice that of North Sea oil at its peak. It had created over half a million new jobs since 1979 and now employed more than two and a quarter million – nearly a tenth of the total workforce. The City's overseas earnings in 1986 had been around £9,500 million, a new record level and 40 per cent higher than in the previous year. Within that total the contribution of the securities industry had nearly doubled in two years.

The figures were one indicator of the increasingly international nature of London's capital markets. Further steps in that direction had been the 'Big Bang' at the Stock Exchange (see p 361, 1986) and the formation of the International Stock Exchange (see pp 332-3, 1986).

The success of London as an international financial centre was extremely valuable in itself, creating jobs and wealth, and providing access to capital for the rest of British industry. A continuing international emphasis was also inevitable, if London was to retain a major role. While New York and Tokyo could rely on the sheer size of their domestic markets, London had to be an international market-place for securities, as it had been for years an international banking centre. In terms of the market value of domestic listed securities, London ranked third in the world, behind New York and Tokyo; but it was ahead of the other two, by some distance, as a centre for trading international equities, and its lead was growing. Turnover in such equities had leapt ahead in the past year, and was now equivalent to around 50 per cent of the turnover in domestic equities.

Meanwhile the Government intended to keep a close eye on the way in which the new regulatory system was developing (see pp 51-4,1986). While Mr Lawson took seriously the risk that inappropriate or heavy-handed regulation could stifle the growth of markets, he was in no doubt that effective regulation could enhance London's standing. The recent falls in the stock markets had underlined one point: the need for market participants to have adequate financial resources. The regime of capital requirements imposed by regulators needed to be based on a realistic appraisal of market risks, therefore; the challenge for them was to be both firm and flexible.

The City and Industry

Mr Lawson recalled his Mansion House speech a year earlier (see pp 359-60, 1986) in which he had spoken of the debate about 'short-termism', which arose from complaints by industrial managers that institutional shareholders were unwilling to countenance long-term investment or sufficient expenditure on research and development. Mr Lawson had pointed out in his speech that in some cases it was industrialists themselves, in their capacity as pension fund trustees, who were putting pressure on financial managers to meet short-term targets in running long-term funds.

A recent report by the Confederation of British Industry (CBI) had agreed that short-termism was a problem for industry and had concluded that the City was not to blame. Mr Lawson agreed with the report's finding that many British companies had given insufficient weight to long-term development; the relatively low spending by British businesses on research and development as a proportion of gross domestic product was an illustration of this.

There were no simple or instant answers to the problem, he said, but one thing that was essential was better communication between management, owners of companies, and the providers of finance. Such communication could be achieved in particular by means of published accounts. He welcomed the CBI's support for an accounting standard on disclosure of research and development spending, together with some explanation of how such spending fitted into a firm's overall strategy, and he endorsed also the CBI's call for restrictions on the options currently available to those presenting cases for mergers or acquisitions. All too often, the real effect of takeovers was inadequately set out and too little information was forthcoming about the true outcome of combining businesses. Mr Lawson believed there was a general need for more relevant information in company reports and accounts, and this was a matter not just of using

[1]Bonds are, broadly speaking, financial instruments (such as government stocks) on which the return is fixed; on equities, however, the return is not fixed, nor is any return even guaranteed.

language which could be widely understood, but of presenting a true and fair picture of the situation a business was in. Among other things this would mean taking proper account of financing which did not show up in the balance sheet and of the activities of controlled non-subsidiary companies.

Another way of addressing the problem of short-termism, he said, was through wider share ownership. Some far-sighted businesses were beginning to look beyond City institutions and to grasp the value of having their shares held by small investors. Such shareholders tended to be more committed to the companies they invested in, and, partly perhaps because they were answerable to no one else, they were more prepared to take a long-term view. The City needed to do more to open its doors to the small investor – to develop dealing and settlement systems that could cope with small transactions and to develop a more vigorous retail business than at present existed in Britain. He conceded that the cost of servicing large share registers might be a problem for companies, but it might be possible to reduce the volume of information that by law had to be circulated to shareholders; the Department of Trade and Industry was looking into this. In the meantime he was making improvements to the personal equity plan scheme (see p 125, 1986) to make it easier to operate.

British Petroleum Flotation

Despite recent difficulties in world stock markets the Government has decided to proceed with the flotation of its shares in the British Petroleum Company (BP). On 29 October the Chancellor of the Exchequer, Mr Nigel Lawson, announced that the Bank of England would make an offer to buy any partly-owned shares.

Background

The BP Group, Britain's largest company and one of the largest in the world, is engaged in all aspects of the petroleum industry, principally oil and gas exploration, development and production; and oil supply, trading, refining and marketing. It also has substantial interests in chemicals, nutrition, minerals and other activities, such as coal, detergents and technology-based ventures. Early in 1987 it acquired the 45 per cent shareholding in the United States company Standard Oil which it did not already own for about £4,700 million. BP is the third largest holder, among major international oil companies, of proven reserves of oil and gas in the world. Its oil reserves (4,658 million barrels in 1986) are mainly in Alaska's North Slope and on the United Kingdom Continental Shelf (UKCS); gas reserves are primarily in the UKCS. It has a significant share in the £6,000 million North West Shelf gas project in Australia. At present BP is exploring in 25 countries. Exploration and production have accounted for nearly two-thirds of group capital expenditure over the last five years.

Oil and gas production is expected to be maintained at present levels (1·4 million barrels a day and 19 million cubic metres – 670 million cubic ft – a day respectively in 1986) for the next five years, with production from other developments replacing declining production in Alaska and in the North Sea Forties field. During 1986 the Group invested nearly £3,800 million in projects across its ten international businesses and spent some £250 million on research and development.

Group turnover in 1986 was over £27,000 million. Operating profit on a replacement cost basis was £2,631 million, of which exploration and production accounted for £1,005 million, refining and marketing £1,279 million and chemicals £237 million. BP employs over 128,000 people in some 70 countries.

Structure of the Offer

The British Government has had a substantial shareholding interest in BP since 1914, but has gradually reduced it in recent years. On 15 October the Government gave details of the proposed sale of its remaining shares: 2,194 million ordinary shares, consisting of 1,735 million ordinary shares (representing all its 31·5 per cent holding of ordinary shares in the company) and 459 million new ordinary shares issued to the Treasury for sale under the combined offer. The share offering, worth some £7,200 million, constituted the largest so far known.

The combined offer comprised: the fixed price offer of up to 1,369 million ordinary shares to the general public and to existing shareholders at £3·30 a share, with £1·20 payable on application, £1·05 in August 1988 and £1·05 in April 1989; and the international offer of not less than 825 million shares to British institutions and overseas investors at or above £3·30 a share, payable in instalments on the same dates. To accord with the Government's objective of widening share ownership, the minimum application was for 80 shares (an investment of £264).

As in other flotations, special arrangements were made for the company's employees, whose applications for 1,000 shares or less would be accepted in full.

Individual investors who hold their shares for three years, up to 31 October 1990, will receive a share bonus of one additional share for every ten shares bought at the fixed price offer, up to a minimum of 150 bonus shares.

After the details of the share price were announced on 15 October, there was a substantial fall in stock market prices (see p 368-9), including that of BP shares, to a level well below the offer price. This discouraged potential investors and resulted in the submission by the public of substantially fewer applications than expected. Some 270,000 applications were received for 70 million shares, representing a considerable under-subscription of the shares, whereas in most other flotations there had been a substantial over-subscription.

Chancellor's Statement

In a statement in the House of Commons on 29 October (*Hansard*, Vol 121, No 33, col 540) Mr Lawson said that the decision to proceed had been taken after consultation with the British underwriters to the offer. He recognised 'the concern that in current unsettled market conditions the sale could have an adverse effect on market sentiment, particularly in markets outside the United Kingdom where underwriting is concentrated in relatively few hands'.

He had therefore agreed with the Bank of England an arrangement whereby for a limited period its issue department would purchase partly paid shares (see above) at 70 p, approximately equivalent to the price implied by the level at which the fully paid shares closed in London on 29 October. (On 5 November he announced that this offer would close at the latest on 6 January 1988.) Partly paid BP shares thus acquired by the Bank would not be resold within the next six months unless the price rose above £1·20.

The Chancellor emphasised the reasons for his decision: to allow taxpayers to secure the proceeds to which they were entitled; to ensure orderly after-markets in BP shares; and to make certain that the sale did not add to present difficulties in world markets.

British Industrial Performance

A recent profile of trends in the British economy in comparison with those in some of the world's other leading economies shows that there have been improvements in some performance indicators, notably in labour productivity, control over inflation and company profitability, but that continued progress is still desirable in other areas such as unemployment and the balance of trade in manufacturing. Some pointers to future prospects are, however, encouraging.

The profile, *British industrial performance*,[1] was published by the National Economic Development Office (NEDO) on 27 October. The fourth edition in a series, it presents its information by means of statistical charts, with a brief commentary on each.

Speaking at a press conference to launch the publication, the Director General of NEDO, Mr John Cassels, said that several aspects of Britain's performance since the recession of 1980-81 showed that its comparative position had improved; the underlying situation was 'more encouraging than for some time'. In particular there was the marked improvement in unit labour costs; the control over inflation which had been achieved; the rise in companies' profitability, which was an essential basis for higher investment; and the fall in the real exchange rate of sterling, which was extremely beneficial for competitiveness.

Overall, the story told in the publication continues to be one of contrast, Mr Cassels says in a foreword. While gross domestic product has grown for five years, employment has expanded and profitability has risen, unemployment, though now declining, continues to be a problem, and the deficit in manufacturing trade has been growing although the balance of payments on current account is now in surplus. And while the improvement in cost competitiveness and the build-up of overseas assets, which should help to secure a growing surplus in invisible trade, are encouraging pointers to future prospects, investment in fixed capital, in research and development and in education are still below the levels in the countries with which comparisons are most appropriate. The profile begins with a section on overall economic performance; then provides an analysis of industrial performance, examines aspects of competitiveness, and gives a breakdown of international trade; and ends with a description of the labour market.

[1] *British industrial performance*. National Economic Development Office, Millbank Tower, Millbank, London SW1P 4QX. £12·50. ISBN 0 7292 0875 3. The profile was presented to the National Economic Development Council (a discussion forum for industrial, trade union and political leaders) earlier in 1987.

Overall Performance

Estimates for overall levels of economic activity are provided in Table 1, which gives figures for gross domestic product per head (the total value added in the production of goods and services) in 1966, 1976 and 1986 for Britain and its major competitors. Britain's level has risen steadily over the period, although other countries have generally done better except in the later years (since the recession of the early 1980s).

While the figures in Table 1 give a measure of the relative economic size of the countries, Table 2 shows how these levels have changed over the last 20 years. The periods chosen coincide with economic cycles in Britain, although the current cycle is not complete and cycles in other countries may not have occurred at exactly the same time. It is clear, however, that growth in all countries slowed in the second period. Britain shows the slowest growth for the first two periods but was virtually unchanged between the second and the third, while most other countries experienced further slowing down. Growth in the last four years in Britain has been relatively rapid and sustained.

The profile notes that profits can be an important measure of relative economic performance of a country, since they depend in part on the effectiveness with which its investment resources have been allocated in the past and may give an indication of the potential for future performance. Table 3 shows trends in profitability across countries for all non-financial corporations (including British North Sea oil activity). All the countries have to some extent experienced declining profitability since the mid-1960s and the British profit rate was below that of all its competitors until 1982.

Analysing the flow of goods and services within each country by type of expenditure between 1975 and 1985 reveals some important differences between them. The European countries have broadly similar allocations to gross fixed capital expenditure (investment) and to government expenditure. In the United States, however, government takes a larger share, while gross fixed capital expenditure takes a larger share in Japan. There has been a general rise in expenditure on exports and imports in all countries except Japan where imports (but not exports) have declined in importance.

Inflation rates in the various countries have differed somewhat over the last 20 years, Britain in particular having a higher rate of price inflation than the other countries over the period as a whole. This was largely due to the level of inflation in the peak years of 1975 and 1980 which did not affect the other countries to anything like the same extent. Since 1980 the British rate has declined considerably, along with that of the other countries. See Table 4.

Analysis by Industrial Sectors

Comparisons are made between four countries (Britain, France, the Federal Republic of Germany and

Table 1 **Gross Domestic Product Per Capita**

$ constant 1980 prices

	Britain	FRG*	Italy	France	United States	Japan
1966	5,407	5,262	4,017	4,842	9,045	3,639
1976	7,266	7,782	6,214	7,660	10,600	6,517
1986	8,788	9,736	7,572	9,141	13,449	9,392

*Federal Republic of Germany.

Table 2 **Growth of Real Gross Domestic Product**

Per cent per annum

	Britain	FRG	Italy	France	United States	Japan
1964-73	3·0	4·2	5·1	5·4	3·9	9·3
1973-79	1·5	2·3	2·6	3·1	2·6	3·6
1979-86	1·3	1·5	1·5	1·3	2·0	3·8

Table 3 **Profitability (net rates of return to fixed capital)**

Per cent per annum

	Britain	FRG	France	United States	Japan
1966	9·0	20·0	12·0	24·0	26·0
1976	4·0	16·0	8·0	14·0	14·0
1984	9·0	15·0*	9·0	13·0	16·0

*1983 figure.

Table 4 **Inflation**

Per cent per annum

	Britain	FRG/Italy/France	United States	Japan
1966	4·2	3·0	3·4	−0·2
1976	15·0	7·2	5·8	7·1
1986	3·4	3·8	2·8	2·1

Italy) in respect of ten main subdivisions of industry. More detailed information is also provided for manufacturing which is divided into ten sectors. Data is provided for 1985 and on the trend in the period 1975-85 for each sector under the following headings: growth as measured by contribution to gross domestic product; employment; productivity; investment; and overseas trade.

Growth

While Britain has achieved faster growth in agriculture and energy compared with its main competitors in 1975-85, its manufacturing industries have grown more slowly. Chemicals, particularly pharmaceuticals, office machinery and electrical goods, and rubber and plastics are among Britain's rapid growth industries. The services industries as a whole grew in each of the four countries but Britain's rate of increase has not matched that of the others except in banking, finance and insurance where it exceeds Italy and the Federal Republic of Germany.

In terms of industrial structure, the greater shares of Britain's energy and financial services sectors and the relative importance of food and drink industries contrast with the small share of its agriculture sector compared with the other three countries. The significantly smaller share of 'other services' (that is, those other than distribution, hotels and catering, transport, communications, and financial services) reflects to some extent the policy of the British Government of reducing expenditure on public administration and other public sector activities.

Employment

Although there have been increases in total employment since 1983, the profile shows that in the period 1975-85 there has been an almost universal decline in employment in manufacturing, agriculture and construction. There has been considerable growth in services which has partly compensated for this. The rates of reduction in employment in British manufacturing industries were higher than the corresponding rates in

other countries, but the same was not the case for agriculture. In the service sectors, which in Britain had a higher share of total employment, increases in employment were lower in Britain over the period. There was also some growth in self-employment.

Figures for the structure of employment show that the distribution and hotels and catering sectors in Britain have a higher share of employment than in the comparable countries, while only France has a slightly higher share in other services than Britain does. In manufacturing, mechanical engineering, office machinery, electrical machinery and paper, printing and publishing have a relatively high share of employment in Britain.

Productivity

Productivity, as measured by value added per employee, grew rather faster in Britain than in the other three countries for most sectors of industry in 1975-85. This was particularly true for energy, fuel and power, where productivity in Britain increased by over 10 per cent, compared with 4 per cent for France and around 2 per cent for the Federal Republic of Germany and Italy. Other sectors in which productivity was higher in Britain were: metals, minerals and chemicals; metal products, engineering and vehicles; other manufacturing; construction; distribution, hotels and catering; and banking, finance and insurance. Only in 'other services' (which includes public services) did output per person actually fall in Britain – and only in this sector was British performance the lowest of the four. The profile notes, however, that changes in productivity come about through differences in the growths of output and employment, and in Britain some of the recent growth of productivity came about through relatively rapid falls in employment.

In 1985 productivity in Britain led that of the other countries in chemicals, construction and banking, finance and insurance.

Investment

The sectors of British industry showing the greatest growth in investment in the decade to 1985 were banking, finance and insurance, and distribution, hotels and catering. These sectors grew faster in Britain in fact than in any of the other three countries. Investment in the financial services in Britain, the profile notes, is very much influenced by the growth of their equipment-leasing activities (mostly to manufacturing), a practice which has not developed as rapidly in the other countries. If leasing were attributed to users, then the lessor industries would show rather faster investment growth and the financial sector would show a correspondingly slower growth.

Overseas Trade

The latest comparable figures for the sectoral composition of overseas trade show that fuel is the leading commodity imported by each of the countries except Britain, for which office machinery and electrical goods is the largest category, followed by fuel, transport equipment and food and drink. For Britain, France and Italy these four product groups accounted for over half of total goods imported, and for just under a half in the case of the Federal Republic of Germany. Metals, minerals, chemicals, and textiles and clothing were significant other imports for each country.

Because fuel exports account for a relatively large part of Britain's overseas trade, several other sectors have lower shares of exports than their corresponding European competitor industries. The Federal Republic of Germany's strongest exports are transport equipment and chemicals, both of which are relatively high value added, and machinery. For Italy, textiles and clothing, and machinery are the leaders, while for France it is transport equipment and chemicals.

The profile also shows import penetration (imports as a percentage of the home market) and export performance (exports as a percentage of sales) for each sector of industry since 1975. In most sectors, both have increased in each of the four countries. However there have been small decreases in Britain's import ratio for agriculture, energy, metal products, paper and publishing, and other manufactures. France and the Federal Republic of Germany have registered the greatest changes both in increasing their export ratios and in receiving a higher share of imports in their domestic markets. The goods for which import penetration has increased most in all four countries have been office machinery and electrical goods and transport equipment, with textiles and clothing and chemicals rather less so.

Competitiveness and Labour Productivity

While noting that non-price competitiveness is hard to quantify and that good statistical indicators are not available for it, the profile says that 'strong impressionistic evidence suggests that UK non-price competitiveness in product quality, delivery dates, design, reliability and after-sales service has been improving rapidly in the last decade'.

Both labour and capital are important in the determination of competitiveness, the report says; this section looks at labour while capital is examined in the next section.

Table 5 shows the trends in wages per head in manufacturing for Britain and its main competitors over the last decade. The figures show that money wages in Britain have tended to rise faster than in the United States, Japan and the Federal Republic of Germany, at about the same rate as in France, and much slower than in Italy. Since 1980, increases in Britain have slowed. (It should be noted that the indices in Table 5 mask actual levels of pay, which are lower in Britain than in the other economies.)

When the figures for hourly labour costs are set alongside changes in productivity (see Table 6), it can be seen that the generally fast rise in labour costs in Britain and the lower productivity growth over the period since 1976 as a whole will generate a markedly higher increase in unit labour costs than in the competing countries other than Italy. However, within the period, Britain's productivity improved sharply after 1980, having been more or less static in the latter 1970s, so that between 1980 and 1986 its unit labour cost position improved in relation to that of France as well as Italy's.

When these unit labour costs are converted into a common currency using exchange rates, the effective decline in the sterling exchange rate since 1980 tends to improve Britain's competitive position relative to other countries.

Looking at cost competitiveness overall since the 1960s, in terms of relative unit labour costs, the profile shows that Britain became 'much less competitive in

Table 5 **Wages Per Head in Manufacturing**

Indices: 1976=100

	Britain	FRG	Italy	France	United States	Japan
1980	171·8	126·6	216·5	165·6	138·9	132·5
1986	301·4	160·8	482·9	288·1	186·1	182·8

Table 6 **Productivity – Output Per Person-hour in Manufacturing**

Indices: 1976=100

	Britain	FRG	Italy	France	United States	Japan
1980	102·0	109·8	116·2	117·6	108·6	125·0
1986	131·6	132·9	136·0	147·0	138·0	146·2

the late 1970s and early 1980s, but that this has been partly reversed more recently'. Against the United States in particular relative costs improved between 1980 and 1984 so that competitiveness by 1984 had returned approximately to its mid-1970s level, the reason being largely the fall in the value of the pound relative to the dollar. 'None the less the position has reversed somewhat since then owing to a weakening of the dollar. Against the other countries competitiveness improved in 1986 and against countries other than the USA was about the same as in the 1960s.' This 'offers Britain an exceptional export opportunity', the profile says, quoting from a National Economic Development Council discussion earlier in the year.

Investment and Capital Productivity

A number of indicators of physical, human and technological capital are brought together, starting with the most widely acknowledged type of capital, the proportion of resources devoted to total investment in fixed capital (see Table 7). This measure, calculated as the share of fixed capital investment spending in gross domestic product, has fallen in Britain in the last few years along with that of most of the other countries.

By way of providing a measure of the effectiveness of investment, the profile gives indices for fixed capital productivity, which is an estimate of the amount of output produced by each unit of capital. These suggest that the productivity of capital in the whole economy in Britain declined between 1976 and 1986, as did that of its competitor countries, although not generally as quickly. Britain's decline between 1979 and 1982 was particularly steep, but has levelled out since then.

Figures for research and development spending as a proportion of gross domestic product show Britain to be well placed relative to other countries, though it is noted that such flows do not necessarily reflect the research and development stock. The levels of spending are therefore given for 1975 and 1983, as indicators of growth in spending on research and development (see Table 8). These reveal that such expenditure rose in all countries in constant prices, but that the increase in Britain was less than that in the other countries.

As measures of investment in human capital the report provides figures for the percentage of gross domestic product devoted to public education in the various countries, showing that Britain's performance compares satisfactorily (see Table 9). Once again, the point is made that effectiveness of investment needs to be borne in mind as well as size. Figures are also given for the number of students in each country taking part in higher education for the years 1979-80 and 1983-84, expressed as a percentage of the total numbers of people in education. This shows Britain to have the lowest percentage of people in higher education in both years, although there was an increase over the period covered.

International Trade

The report notes that the proportion of Britain's gross domestic product going into trade in goods, averaging more than 20 per cent over the last 25 years, is higher than that of its major competitors.

Trading patterns by industrial sector have already been described above. This section looks at other aspects, beginning with the balance of the current account (Table 10). Over the period 1976-86 the current balance has on average been 'comfortably positive', and invisibles have consistently shown a strong surplus. Visibles were in deficit in the early years, moved into surplus in the early 1980s but returned to deficit again in 1983. Figures for the contributions of manufacturing, oil and services suggest that the visible balance is influenced by largely opposite movements of the manufacturing and oil balances, with oil going into surplus in 1980 and manufactures going into deficit for the first time in 1983. The steady surplus on services makes a strong contribution to the invisible balance, while the continuing deficit on 'other goods' reflects shortages of natural resources in Britain.

Looking at the categories of goods in which Britain trades, the profile notes that exports of capital and consumer goods constitued nearly a third of total visible exports in 1976 but declined to about a quarter in 1986, mainly as a result of the falling share of capital goods. The share of semi-manufactures and chemicals fell similarly from a third of the total to just over a quarter between 1976 and 1986, while raw material exports increased by over 50 per cent as a result of

Table 7 Share of Investment in Gross Domestic Product

Per cent

	Britain	FRG	Italy	France	United States	Japan
1975	19·9	20·4	20·6	23·3	17·2	32·5
1985	17·2	19·5	18·2	18·9	18·6	27·5

Table 8 Gross Expenditure on Research and Development

$million (constant 1980 prices)

	Britain	FRG	Italy	France	United States	Japan
1975	8,235	10,101	3,027	6,916	52,475	13,952
1983	10,097	13,731	4,383	10,041	73,111	25,162

Table 9 Share of Public Education in Gross Domestic Product

Per cent

Britain	FRG	Italy	France	United States	Japan
(1983) 5·4	(1983) 4·4	(1983) 5·6	(1982) 5·8	(1982) 6·4	(1982) 5·6

Table 10 Britain's Current Account Balance

£ million (constant 1986 prices)

	Visible balance	Invisible balance	Current balance
1976	−9,451	7,236	−2,215
1980	1,939	2,236	4,175
1986	−8,253	7,154	−1,099

the increased importance of oil. The imports picture is more or less a mirror image of exports.

The report also gives figures for export markets, showing that the four largest destinations of British exports in both 1976 and 1986 were the United States, the Federal Republic of Germany, France and the Netherlands (see Table 11). But the share of exports going to the European Community had risen from 36 per cent to 48 per cent at the expense of the rest of the world (apart from the United States). The same broad trend is evident in Britain's imports.

A significant contribution to the balance of payments is made by trade in invisibles, the main elements of which are transport, travel, investment income and a residual 'other services' item. Figures for 1984 show that the United States, Britain and France had the largest surpluses on invisible trade. Britain has consistently earned the second largest surplus in world trade in invisibles after the United States and its receipts for invisibles are larger than those of all countries except the United States. Investment and financial services account for Britain's favourable invisible balance, the same being true of the United States. For Italy and France, travel has been a major factor.

The Labour Market

The age structure of the population of a country is an important determinant of the numbers of people available for employment. Table 12 gives comparable proportions of people of working age and those above and below it. The proportion aged between 16 and 65 increased between 1976 and 1984 in all the countries, though Britain and France had the smallest rises, while the Federal Republic of Germany had the fastest growth. The proportion of males of working age increased slightly in Britain and more so in the other countries.

In 1976 about three-fifths of the labour force in most countries were employed men, except in Italy where the proportion was higher. By 1985 this had decreased to just over a half in Britain, France and the United States, and in the other countries too men's share of employment was lower.

Between 1976 and 1986 Britain's labour force grew by 1·7 million people, or 7 per cent, to 27·8 million people. Self-employment continued to expand (from 1·9 million to 2·6 million) but the number of employees in employment fell by a million to 21·5 million, resulting from a decrease of 1·5 million in the

number of men in employment (to 11·8 million) and an increase of half a million in the number of women (to 9·6 million), both full and part time.

The final sections of the profile examine trends in employment and unemployment in more detail. Total changes in employment are shown in Table 13. The United States experienced relatively high growth in employment between 1976 and 1986, with Japan and Italy expanding moderately. The contraction in British employment in the early 1980s has been reversed, though while the level of employment has been recovering since 1983 it is still short of the peak of 1979. The increase in employment since March 1983 has been over 1 million.

In terms of participation rates, Britain and the United States had larger percentages of people under the age of 24 as participants in 1985. In the over 55 age group, the later retiring age of the Japanese stands out in comparison with other countries. Britain has higher participation rates in this age group than have the other European Community countries and Italy's are particularly low. Britain has the highest overall participation rate among the European countries owing to a high level of participation among women and a low proportion of students.

Table 14 shows unemployment rates for the various countries between 1976 and 1986. Japan's rate is low and increasing only slowly. In 1980-86 Britain's was the highest rate, with Italy and France close behind. In 1976 the United States had the highest rate, but by 1986 it had the lowest except for Japan.

The profile concludes with comparative figures on the duration of unemployment and unemployment rates by age and sex.

Table 11 Britain's Export and Import Markets

Per cent of total value of trade

	FRG	France	Netherlands	Other European Community	United States	Other OECD*	Rest of the world
Exports							
1976	7·1	6·6	5·8	16·0	9·5	23·8	31·2
1986	11·7	8·5	7·5	20·3	14·2	15·5	22·3
Imports							
1976	31·1	22·6	9·8	13·2	7·8	6·7	8·8
1986	15·9	22·6	9·8	19·1	7·7	8·5	16·4

*Organisation for Economic Co-operation and Development.

Table 12 Population Age Structure

Percentage of total

	Britain	FRG	Italy	France	United States	Japan
1976						
under 15	22·9	20·9	22·5	23·6	24·5	24·3
15-64	62·9	64·3	65·9	62·8	64·8	67·6
over 64	14·2	14·7	11·6	13·6	10·7	8·1
1984						
under 15	19·5	15·6	17·9	21·5	21·9	22·1
15-64	65·7	69·7	69·2	65·7	66·3	67·9
over 64	14·8	14·7	12·9	12·9	11·9	9·9

Table 13 Total Employment 1986

Indices (1976=100)

Britain	FRG	Italy	United States	Japan
99·1	100·8	105·6	123·1	111·0

Table 14 Unemployment

Percentage of total labour force

	Britain	FRG	Italy	France	United States	Japan
1976	5·6	3·7	6·6	4·4	7·6	2·0
1980	6·5	3·0	7·5	6·3	7·0	2·0
1986	11·5	8·4*	10·4*	10·3	6·9	2·8

*1985 figures.

Employment Bill

The Employment Bill, which provides for various reforms of industrial relations and trade union law including establishing new rights for trade union members, has received its second reading in the House of Commons. It also contains provisions on training, involving the renaming of the Manpower Services Commission as the Training Commission.

Main Provisions

The first part of the Bill is concerned with the rights of trade union members and follows the Green Paper issued in February 1987 (see pp 100-2). Clause 1 establishes the right of trade union members not to be called out on strike without a properly held secret ballot. Clauses 3 to 5 deal with the right not to be disciplined unjustifiably by a trade union for specified reasons such as refusing to strike or crossing a picket line. The 'closed shop' (formally known as a union membership agreement) is the subject of clauses 10 and 11 which provide for the removal of the legal immunity applying to industrial action to create or maintain closed shop practices, and amend the Employment Protection (Consolidation) Act 1978 so that dismissal for non-membership of a trade union will be unfair in all circumstances. On trade union elections clause 12 extends to non-voting members of a trade union's principal executive committee and to the general secretary and president the requirement under the Trade Union Act 1984 for regular elections already applied to voting committee members. Clause 13 provides that such elections and ballots on the use of trade union funds for political purposes are to be by postal ballot, while clause 14 places a duty on unions to conduct these ballots under independent scrutiny. Provision for the establishment of a Commissioner for the Rights of Trade Union Members is made by clauses 18 to 20 and by Schedule 1 to undertake the task of helping trade union members with legal action against their union by paying for legal advice and representation and, where the applicant wishes, making arrangements to provide this help.

The second part of the Bill is primarily concerned with training and provides for the renaming of the Manpower Services Commission as the Training Commission. It also provides for increases in the Commission's membership and in the membership of industrial training boards, enabling the Secretary of State for Employment to increase employer representation on these bodies, as announced by the Government in June 1987 (see p 239).

PARLIAMENTARY DEBATE

The Bill was given its second reading in the House of Commons on 3 November by 335 votes to 233 (*Hansard*, Vol 121, No 36, cols 816-79).

Government View

Opening the debate, the Secretary of State for Employment, Mr Norman Fowler, said that the legislation enacted by the Government since 1979 – the Employment Act 1980 (see pp 21-3, 1980), the Employment Act 1982 (see pp 78-80, 1982) and the Trade Union Act 1984 (see pp 436-8, 1983, and 312-13, 1984) – had done much to improve industrial relations. The number of working days lost in 1986 through industrial disputes [1·9 million] had been the lowest for over 20 years, while there had been fewer strikes recorded in 1985 and 1986 than at any time since the end of the second world war in 1945. The decline in the number of days lost was 'a key element in Britain's new-found economic strength'.

Mr Fowler said that the Bill took the process of industrial relations law reform a stage further. The essence of the 'step-by-step' process of reform was a determination to ensure that the legal framework was appropriate to match current needs and to respond to any omissions. The Bill was 'essentially concerned with giving new rights to trade union members and setting out new ways in which such rights can be enforced'.

Rights of Members

Mr Fowler said that the first major theme of the Bill was that trade union members had to have 'protection from abuses of power by their unions and . . . the right in respect of their unions that they are entitled to expect in a free society'. The first clause provided an example of the protection of rights. At present only employers and their customers and suppliers had the right to stop industrial action which had not been supported in a properly conducted secret ballot. Under the Bill this right would be extended to the individual trade union member and in that respect it provided 'a natural complement to the 1984 Act'.

Turning to the clauses dealing with disciplinary measures, the Secretary of State pointed out that the trade union member had many obligations, not only to his or her trade union. Under the contract of employment a member had an obligation to the employer, while there was also a wider obligation to the community. The Government's view was that a member should not be influenced by the fear of disciplinary action being taken by his or her trade union. Where a union had taken disciplinary action (such as for refusing to strike) that was judged by an industrial tribunal to be unjustifiable, the member would be able to apply for compensation.

The Bill also improved the position of trade union members in a number of other ways, Mr Fowler continued. The most important was the establishment of the Commissioner for the Rights of Trade Union Members. As the process of applying to court could be complex and expensive for the individual, members with complaints about trade union elections were already offered another route for complaint, through the Certification Officer for Trade Unions and Employers' Associations, who was empowered to make declarations, but could not issue enforcement orders and could not operate as a court. To obtain an enforcement order, a member had to make a separate application to the court. The creation of the new duty provided by the first clause of the Bill reinforced the need for action. The Bill proposed that the Commissioner's financial help would be available to assist a trade union member in taking or contemplating legal action against the union to enforce rights or duties.

Mr Fowler said that the Bill removed all legislative support for the closed shop. It protected the employer against the use of trade union action to force him or her to dismiss or refuse to employ a non-union member and also protected the employee by providing that dismissal for non-union membership would be unfair.

Training

Mr Fowler said that training was needed not only to help the unemployed to take advantage of the job opportunities that were available, but also for those in work to ensure that Britain remained competitive and retained its overseas markets. Following his statement in June (see pp 238-9), jobcentres had been transferred from the Manpower Services Commission to the Department of Employment to create a comprehensive new employment service covering both helping unemployed people to find jobs and the payment of benefit. The Commission's remaining functions were primarily concerned with training, and the Bill provided for the change of name to the Training Commission to reflect its new role as the focus of Britain's national training effort. It would also have a wider remit than just its direct training programmes, and would have to act as a 'catalyst for training provision by employers as a whole'. Training in work was primarily the responsibility of employers, who created the demand for training and were the customers. He therefore intended to use the Bill's powers to appoint additional employer members to the Training Commission. He wished to ensure that all the new major sectors of employment, including the expanding service sectors, were involved in the development of training arrangements.

Opposition Views

For the official Opposition its chief spokesman on employment, Mr Michael Meacher, said that the Bill was anti-democratic, as minorities would be legally protected if they disobeyed a majority decision reached after a secret ballot. No other country had legislated for such a principle. The Bill also discriminated against trade unions, which were being singled out for 'unprecedented and prejudicial state regulation of their internal affairs'. None of the changes being made to the Manpower Services Commission was sought or approved by it, or desired by employers, and the Commission would cease to be independent, with power being centralised under the Secretary of State for Employment. As the Government was not genuinely concerned about employment rights and as the provisions would greatly worsen industrial relations, the Labour Party would oppose the Bill.

For the Liberal Party, its spokesman on employment, Mr Cyril Smith, said that the Bill did not lay the foundations for good industrial relations in the long term, while he regretted that it took no steps to encourage industrial democracy and worker participation or to recognise the importance of good, modern trade unionism. There were serious reservations about the second part of the Bill, and no guarantee in the Bill about the quality of training.

Government Reply

Replying for the Government, the Minister of State for Employment, Mr John Cope, disputed claims that other countries did not have comparable legislation. He said that a number of Britain's major competitors, including France, the Federal Republic of Germany and Italy, had long ago rejected the closed shop as the Bill did and as other developed countries had done.

On the clauses dealing with disciplinary procedures, he said that these clauses were part of the protection of an individual's right to choose whether to strike, to work on or to return to work during a strike. The decision to strike was of the greatest importance and could have many individual and collective consequences. The law already provided trade unions with the right to induce a strike and remain immune from the legal consequences that would otherwise follow, but it should also provide the individual with the right not to strike and remain immune from the consequences that the union might inflict.

Mr Cope concluded by saying that the Bill strengthened the rights and influence of ordinary trade union members, and drew on 'the best practice of unions to give them all a greater spur to put things right'.

Unemployment

Unemployment in Britain has fallen for 15 months in succession, to its lowest point for nearly five years. The fall of nearly 400,000 in the year to August 1987 was the largest since records were kept in their present form in 1948.

Recent trends in unemployment, together with long-term movements, are described in an article in the October issue of the Treasury's *Economic Progress Report*.[1]

Long-term Trends in Britain

The article says that, in common with many industrialised countries, unemployment in Britain was low throughout the 1950s and 1960s, mostly remaining within the range of 1 to 3 per cent of total employees. Since 1970 unemployment has been through three cycles, each with a higher peak than before, so that by the second half of the 1970s unemployment was double that of the 1960s. It doubled again in the first half of the 1980s, from an average of about 5·5 per cent in 1980 to over 11 per cent in 1984. It reached a peak in mid-1986 when 11·6 per cent of the working population was claiming benefit. Unemployment has fallen since then by nearly 400,000, bringing the rate down to 10·2 per cent.[2]

International Comparisons

Britain's experience of rising unemployment in the 1970s and 1980s was shared by most of the major economies in the Organisation for Economic Co-operation and Development (OECD), especially those in Europe (see table), with increases in unemployment following the oil price rises in 1973 and 1979 and subsequent world recessions. Since 1983 the rise in unemployment has slowed in most countries, although the latest figures show little sign of a fall in unemployment rates in Japan, the Federal Republic of Germany, France and Italy. Among the other major countries, unemployment is declining in the United States and Canada, but in neither case as much as in Britain. The unemployment rate in Britain has usually been slightly above the European average, but on

[1] Available free from *Economic Progress Report* (Distribution), COI.

[2] The most recent unemployment figures, issued by the Department of Employment on 15 October, showed a further fall in unemployment. On a seasonally adjusted basis (excluding school-leavers), unemployment was provisionally estimated at 2·8 million in September, 10·0 per cent of the working population.

current estimates it is now slightly below the European Community average.

The article says that the persistence of high European unemployment reflects the slow adjustment of labour markets to the disequilibrium produced by the shocks of 1973 and 1979. However, the British labour market appears to have adjusted more slowly than in other countries, while real wages have not been sufficiently responsive to labour market conditions and have risen too fast. One reason for the slow adjustment is the prevalence of structural rigidities, as in the rest of Europe, such as pay and price controls, and attempts by governments to thwart the process of industrial change.

Economic Recovery

As with other industrialised countries, the British economy was in recession at the start of the 1980s, with manufacturing and construction particularly adversely affected. However, since 1981 real gross domestic product has grown steadily at about 3 per cent a year, while since the end of 1982 manufacturing output has risen by 3·5 per cent to 4 per cent a year. The level of employment does not usually respond immediately to changes in output as firms are generally reluctant to take action until they are certain that changes are not temporary. Accordingly, the fall in employment lagged behind the decline in output and so did its subsequent recovery. In addition, from 1980 onwards employers reduced overmanning levels significantly. Employment fell continually between the end of 1979 and March 1983, even though output had started to recover from 1981.

However, one effect of employment changes was greater efficiency in industry. The rise in productivity in manufacturing in the 1980s has enabled Britain 'to compete far more effectively and has been at the heart of the improvement in industrial performance' (see p 373). Manufacturing productivity in Britain has grown faster than in any other major industrialised country since 1980, and productivity growth for the country as a whole has been exceeded only by Japan. Rapid output growth has helped employment, with an increase in the employed labour force in Great Britain of nearly 1·25 million since March 1983 (to over 24 million). In the three years to 1986 employment in Britain grew faster than in the whole of the rest of the European Community.

Labour Supply

Although output and employment in Britain have risen strongly since 1983, unemployment continued to rise until mid-1986, as many of the additional jobs went to people not previously claiming benefit, in particular married women who were increasingly seeking work. Industry is offering more flexible employment conditions and, together with an expansion of the service sector, this has created a considerable number of extra part-time job opportunities, which are particularly attractive to women with young children. Women working part-time have provided almost half the new jobs created since 1983. Another major contributing factor to growth in the labour supply over the past decade has been that children born in the 'baby boom' of the 1960s have reached working age, although this has been offset to a degree by a general move to earlier retirement, especially among men.

The net effect of these changes was a small decline in the civilian labour force in both 1982 and 1983, followed by a significant rise in 1984 and 1985, as female participation rates rose. Labour supply growth is projected to decline in each year from 1986 to 1991, as the population of working age rises more slowly.

Recent Changes

Since mid-1986 a quickening of growth in employment has been accompanied by falling unemployment, 'which now seems firmly established on a downward

Unemployment Rates in Selected OECD Countries*

Average rate (per cent)

	1964-73	1974-79	1980-85	1985	1986	Latest month of 1987
Britain	2·9	5·0	10·5	11·2	11·1	9·8 (August)
Canada	4·8	7·2	9·9	10·4	9·5	8·7 (August)
Federal Republic of Germany	0·8	3·2	6·0	7·2	6·9	7·0 (July)
France	2·3	4·5	8·3	10·1	10·3	10·9 (July)
Italy	5·5	6·6	9·2	10·5	*na*	*na*
Japan	1·2	1·9	2·4	2·6	2·8	2·7 (July)
United States	4·5	6·7	8·0	7·1	6·9	5·9 (August)
Seven major countries above	3·1	5·0	7·1	7·4	*na*	*na*
Belgium	2·3	6·3	11·3	11·2	10·8	10·6 (July)
Netherlands	1·3	4·9	10·1	10·6	9·9	9·6 (July)
Spain	2·6	5·2	16·6	21·4	21·0	21·1 (February)
European Community average†	2·7	4·9	9·5	11·1	*na*	*na*

na = not available.

*As different countries use different definitions of unemployment for domestic purposes, their national statistics are not used for comparing levels of unemployment between countries. The figures in the table are 'standardised unemployment rates' calculated by the OECD. For Britain the latest available OECD figure used in the article is 9·8 per cent, which compares with the figure for August 1987 of 10·2 per cent used in the national definition as representing the proportion of the working population claiming benefit (on a seasonally adjusted basis and excluding school-leavers).

†Average covering Belgium, Britain, the Federal Republic of Germany, France, Italy, the Netherlands and Spain only.

trend'. The strength of the economy is helping to create more jobs, and this is primarily responsible for the faster fall in unemployment in recent months. Unemployment has declined in all regions in the past year, with the largest falls in the West Midlands, Wales and the North West. The number of people unemployed for more than a year fell by 110,000 in the year to July 1987, and youth unemployment is also beginning to fall rapidly.

The improvement has resulted from policies 'that have provided a sound financial background, coupled with improvements to the supply side of the economy'. As the broadly-based economic growth continues, 'it should maintain the growth of employment and ensure a further decline in unemployment in the short term'. The latest OECD prediction expects Britain to be the only major European country to see a fall in unemployment over the next year.

Objectives for the Department of Trade and Industry

A new statement of objectives for the Department of Trade and Industry (DTI) emphasises the promotion of enterprise and assisting the creation of prosperity throughout the economy.

In a letter issued to all members of staff at the department on 13 October, the Secretary of State for Trade and Industry, Lord Young of Graffham, said that he was impressed that the DTI was now facing 'new problems of success'. When he had left the department in 1982 (having been a special adviser to the then Secretary of State) it had instead been coping with the problems of failure in many sectors of industry. Different problems now required different solutions, which was why the objectives had been updated 'to be relevant to the 1990s and beyond'.

'Fundamentally we are the department for enterprise. We want to help industry and commerce become better equipped to meet the challenge of the next century and to lay the foundations of a more productive and prosperous society', Lord Young said. 'This means adopting new technology, using our advisory services, improving management education and links between industry and education.'

The full statement of objectives is reproduced below.

Departmental Objectives

The needs and demands of society can only be met by increasing prosperity. The prime objective of the department is to assist this process throughout the economy and to champion all the people who make it happen, rather than just individual sectors, industries or companies.

We work with business to promote best practice and within Government to create a climate that stimulates enterprise and reduces red tape.

Business flourishes in a competitive and open economy and we aim to secure this both at home and abroad. We will continue to promote the growth of international trade and work towards a single market within the European Community.

We seek to

— produce a more competitive market by encouraging competition and tackling restrictive practices, cartels and monopolies;

— secure a more efficient market by improving the provision of information to business about new methods and opportunities;

— create a larger market by privatisation and deregulation;

— increase confidence in the working of markets by achieving a fair level of protection for the individual consumer and investor.

We will encourage the transfer of technologies and co-operative research, the spread of management education and the growth of links between schools and the world of work.

Our objective will be to produce a climate which promotes enterprise and prosperity. In all our work we will take account of the differing circumstances of the regions and of the inner cities to enable those who live there to help themselves.

Industrial Development Act Report

Details of some of the main schemes of aid to industry provided by the Department of Trade and Industry, the Scottish and Welsh Offices and the Department of Employment in 1986-87 are contained in the annual report on the Industrial Development Act 1982.

Payments under the principal sections of the Act amounted to £687 million in 1986-87, compared with £532 million in the previous year, the report[1] states. Special schemes of assistance to shipbuilding, small firms and land reclamation projects are also covered in the report.

Although payments of regional development grants continue to account for the greater part of government spending, the Government's policy is to adjust the level of such grants downwards while placing more emphasis on payments of selective financial assistance, which are discretionary (see pp 449-53, 1984).

Regional Support

Regional development grants continued to provide the largest element of support to industry in the assisted areas[2] in 1986-87. Grants under the old 'three-tier' scheme which is in the process of being phased out amounted to some £5,565 million in the period 1972-73 to 1986-87. In 1986-87 they totalled £397 million (£196 million in England, £133 million in Scotland and £68 million in Wales). Payments under the new

[1] *Industrial Development Act 1982.* Annual Report by the Secretaries of State for Trade and Industry, Scotland, Wales and Employment for the year ended 31 March 1987. HMSO, £6·90. ISBN 0 10 203888 0.

[2] The assisted areas are those parts of Great Britain which have the highest levels of unemployment and where the economic structure is weakest. See map on p 450, 1984.

two-tier scheme in 1986-87 were £58 million, £38 million and £21 million in the respective countries. Under the revised scheme grants are payable towards investment projects which 'create new, or expand existing productive capacity or effect a material change in the product or service in question or in the process of producing it'. The project must fall within the definition of qualifying activities and be in a Development Area (the higher of the two tiers in the new system).

Regional selective assistance is made available to encourage sound projects which will improve employment opportunities in the assisted areas. Projects qualifying for assistance fall into two broad categories: new projects and expansions which create new jobs; and projects for modernisation or rationalisation which safeguard existing employment. Selective assistance on a smaller scale is also available for office and service industries and for training grants. Some £183 million of regional selective assistance was offered and accepted in 1986-87 in respect of 1,175 projects with an estimated total cost of £1,732 million. Scotland accounted for £37 million, Wales for £36 million, and England for £110 million. Some 5,550 jobs were estimated to have been created by these offers and a further 4,140 were expected to be safeguarded. Cumulative payments of regional selective assistance since 1972-73 amount to £944 million.

European Community Regional Support

Under schemes of assistance from the European Regional Development Fund administered by the European Community, the Government received £40 million in claims against expenditure on regional development grants and regional selective assistance in 1986-87. The Fund is also contributing £43 million towards a £62 million scheme of specific measures in areas affected by job losses in the steel, shipbuilding and textile and clothing industries (see pp 23-4, 1985); and is expected to contribute a further £5 million to a scheme for declining fisheries areas in northern England to which the Department of Trade and Industry committed £2·5 million in March 1986. Among the facilities available in these 'closure' areas are business support packages – including consultancy – for small firms.

Some £28 million was disbursed in loans by the European Coal and Steel Community in 1986-87 of which 90 per cent went to small firms.

Other Regional Support

Other expenditures during the year included £13 million of grant-in-aid to the English Industrial Estates Corporation to build and sell or let factories in the English assisted areas. The Corporation spent a further £23 million out of its receipts from the sale and rent of property. It continues to concentrate on providing premises for small and high technology businesses.

Grants are also available under the Industrial Development Act (and the Local Employment Act 1972) towards the improvement of basic services (such as roads, water supply, sewerage and electricity) in the assisted areas. There were 111 applications for such assistance during the year and the total number of projects approved at the end of March 1987 was 205. Estimated grants of £15 million were allocated to these projects which had total estimated costs of £55 million.

There were over 1,000 applications during the year towards the reclamation of derelict land in England (under the Derelict Land Act 1982 and the Local Employment Act 1972). Applications approved at the end of the year numbered 762, covering 3,350 hectares (8,300 acres), with grant payable of £72 million (82 per cent of total estimated costs).

National Investment Support

A range of assistance continues to be given as national investment support under section 8 of the Industrial Development Act. The schemes involved can be broadly categorised into general investment schemes and other measures directed at particular activities or industrial sectors. A total of £930 million had been offered as assistance towards 17,580 projects with a total cost of £5,333 million by the end of March 1987. Cumulative payments amounted to £718 million; payments in 1986-87 totalled £42 million.

The scheme known as Support for Major Projects (formerly National Selective Assistance) provides assistance for major projects in the manufacturing and service industries. Projects must be viable and offer the prospect of exceptional national benefit, and assistance is only offered for projects which would not proceed as proposed without assistance. Payments of £10 million during 1986-87 raised total spending under this scheme to £45 million since its inception in 1979. Offers of £67 million have now been made for 179 projects involving total investment of £655 million.

Exceptional support was offered for one project during the year which did not qualify for Support for Major Projects. This was assistance for Cornish tin mines, which took the form of an interest-free loan of £15 million and government guarantees of commercial loans of up to £10 million.

Under the Advanced Manufacturing Technology (AMT) Project Planning Scheme assistance of up to 50 per cent can be provided for consultancy studies. An additional £10 million allocation for such studies extends the application of AMT into batch manufacture.

The Investment Support for Microelectronics Programme seeks to ensure that the electronic equipment industry has access to internationally competitive microelectronic devices and that Britain has a sound basis for maintaining a capability in such equipment. Assistance is offered on a selective basis and at 31 March 1987 some £37 million, out of the total of £120 million for the scheme up to 1990, had been offered towards 80 projects costing £233 million.

Investment Support for Fibre Optics and Opto-Electronics is a measure of support providing assistance towards the design and development of optical fibres, opto-electronics, optical sensors, instruments and production processes. Assistance may be given both under the Industrial Development Act 1982 and the Science and Technology Act 1965 (see pp 239-40). At 31 March 1987 total assistance offered amounted to £40 million and payments were £28 million; £5·6 million of offers and £3·1 million of payments had been made under the 1982 Act.

Under the Coal Firing Scheme, which opened for applications in May 1981, capital grants of up to 25 per cent of the costs of converting or replacing oil and/or gas-fired industrial equipment with coal-fired equipment may be provided. The scheme, administered by the Secretary of State for Energy, was open

until 30 June 1987. Total offers to 31 March 1987 amounted to £48 million for projects costing £262 million. Payments totalled £40 million.

The report also gives details of Assistance for the Development of Certification Schemes. This assistance is designed to encourage the development of third party certification systems.

Details are also given of spending on a number of schemes which are now closed for new applications. In some cases they have been superseded by schemes described above.

Shipbuilding and Associated Industries

In the year to 31 March 1987 grants of £6·6 million were offered to secure orders for 18 ships totalling 10,040 tonnes through the Shipbuilding Intervention Fund. Fund support offered between February 1977 and 31 March 1987 amounted to £322 million covering orders for 262 ships totalling 2·1 million tonnes.

Small Firms

Under the Small Firms Loan Guarantee Scheme the Government guarantees 70 per cent of eligible bank loans up to £75,000 and repayable over two to seven years. At 31 March 1987 a cumulative total of 17,690 guarantees had been issued in respect of £582 million of bank lending to small firms since the start of the scheme in June 1981.

Counselling services are made available to small firms under the Act, and the number of new clients coming forward for counselling exceeded 27,000. Three initial sessions are provided free of charge to each client; subsequent ones must be paid for. The direct costs of counselling in 1986-87 amounted to £1·9 million (see pp 279-80).

Grants were again provided to local enterprise agencies, small business clubs and similar organisations providing advice to people carrying on small businesses or thinking of starting one. Grants were also made to academic centres running projects concerned with management education and training for small businesses.

Inward Investment

While the Invest in Britain Bureau recorded 322 decisions by overseas companies to invest or expand in Britain in 1986-87, the report notes that not all decisions of this kind are notified to the Department of Trade and Industry, and a comprehensive figure is not available (see pp 159-60). The amount of assistance offered to foreign-owned companies is another indicator of the level of inward investment. Assistance under the Industrial Development Act 1982 included £75 million in offers of regional selective assistance in 1986-87 for 111 projects estimated to cost £740 million. The projects were expected to create some 8,940 jobs and safeguard 7,900 others. United States companies accounted for 64 per cent of total project costs.

Shorter Notes

COMPETITION POLICY: INTERIM REVIEW CONCLUSIONS

The interim results of a review of aspects of the Government's competition policies were announced on 8 October. The review – of policy and legislation on mergers[1] and restrictive trade practices[2] – was initiated in June 1986.

Speaking during a lecture in Blackpool the Secretary of State for Trade and Industry, Lord Young of Graffham, reaffirmed the Government's commitment to the policy of maintaining healthy competition within Britain's economy.[3] The review had confirmed his view that he should continue to refer mergers to the Monopolies and Mergers Commission (MMC) mainly, but not exclusively, after considering their potential effect upon competition. It was also right, however, that he should continue to have discretion to refer mergers on grounds of the public interest as well.

When considering the effect upon competition, he had to take full account of international competition, both from European and other sources.

This view of merger policy had stood up well to the test of time. However, work was continuing to see whether it was possible to cut down the time taken to conduct MMC investigations. The Commission had already agreed that inquiries into newspaper mergers (for which a special regime applies) would normally be conducted within two months rather than the three allowed by law.

Lord Young said he was also encouraging a review of accounting rules within the private sector, following suggestions that the current ones did not result in adequate disclosure of the financial implications of mergers.

On restrictive trade practices, the review had confirmed that there were 'fundamental weaknesses' in the existing legislation and a 'thorough-going reform' seemed to be necessary. He expected to publish a consultative document setting out fresh legislative proposals in 1988.

Source: Department of Trade and Industry press notice, 8.10.87.

EUROPEAN COMMUNITY RESEARCH FUNDING

At their 28 September Research Council meeting in Brussels ministers from the member states of the European Community agreed a new 'framework' programme to fund scientific and technological research

[1]Mergers may be investigated by the Monopolies and Mergers Commission, an independent body, at the request of the Secretary of State for Trade and Industry, if the merger would result in or intensify a monopoly or if the gross value of the assets to be taken over would exceed £30 million. A monopoly situation is where one person, company or group of interconnected companies supplies or acquires at least one-quarter of the supply of specified goods or services in Britain; or where two or more unconnected persons do this and conduct their affairs in any way to prevent, restrict or distort competition.

[2]Restrictive trade practices are agreements between trade competitors on prices, tenders, market areas or terms and conditions of trade. Under Britain's competition laws it is an offence not to register such agreements. Registered agreements are deemed contrary to the public interest (and may therefore be prohibited) unless the parties concerned either can show otherwise in a special court or are prepared to modify their agreement to an acceptable degree.

[3]For further information, see COI reference paper *Competition Policy in Britain*, No 252/86.

over the period 1987-91. A total research budget of 5,396 million ECUs[1] (about £3,740 million) has been approved. The Research Council's recommendations to the European Parliament on the approximate allocations to individual programmes are summarised in the table below.

Proposed Allocation of Community Research Funds 1987-91

	New Commitments *(million ECUs)*
Quality of life	*375*
Health	80
Radiation protection	34
Environment	261
Information technology	*2,275*
ESPRIT	1,600
Telecommunications (RACE)	550
Applications including transport	125
Modernisation of industry	*845*
BRITE	400
Advanced materials	220
Raw materials	45
Standards etc	180
Biological resources	*280*
Biotechnology	120
Agro-industrial	105
Competitiveness of agriculture	55
Energy	*1,173*
Fission	440
Fusion	611
Non nuclear	122
Science and technology for development	*80*
Seabed and marine	*80*
Marine science and technology	50
Fisheries	30
European scientific and technological co-operation	*288*
Stimulation programme	180
Large facilities	30
Forecasting, assessment	23
Dissemination of results	55
	5,396

More than 40 per cent of the total would go to information technology, mostly to extensions of current programmes, such as the European Strategic Programme for Research and Development in Information Technology (ESPRIT) (see pp 117-8, 1984) and the Research and Development in Advanced Communications Technology in Europe programme (RACE). Funding for the Basic Research in Industrial Technologies for Europe programme (BRITE) (see p 53, 1985), which aims to speed up the introduction of new technology in the more traditional industries, would be tripled, making it one of the larger elements in the framework proposals. Some of the smaller programmes, such as that on marine science and technology, are devoted to exploratory studies; others make provision for the shared use of major European research facilities.

Several existing programmes are scheduled to finish during the new five-year planning period and others to start then and continue after 1991. To fund these an additional 1,084 million ECUs (£750 million) from the previous framework programme will be spent between 1987 and 1991, and 863 million ECUs (£600 million) of the newly approved funding will be reserved for use after 1991.

In view of concern expressed by the British and other member grovernments over the need for improved budgetary discipline within the Community (see p 232), 417 million ECUs (£290 million) of the framework programme is to be withheld pending further decisions on these matters. The British Government is also pressing for the Joint Research Centre (which consists of four multi-disciplinary laboratories funded under the framework) to clarify its objectives, to make its work more relevant to Europe's current industrial needs, and to look for more finance from sources outside the Community.

Source: *British Business*, 9 October 1987.

[1]ECU = European Currency Unit, based on a 'basket' of national currencies (including sterling), the value of which is recalculated daily.

BIOTECHNOLOGY RESEARCH

The Biotechnology Directorate of the Science and Engineering Research Council (SERC) is to provide £3·5 million over a four-year period to establish two Centres of Biochemical Engineering, a research area in which British institutions are among the world leaders. The centre at University College, London, will receive £1·9 million and that at Birmingham University £1·6 million from the SERC to install the latest equipment and recruit more research staff. Birmingham will also benefit from a special grant of £600,000 from the University Grants Committee to enable it to extend its laboratories.

Biochemical engineering builds on laboratory techniques from rapidly developing fields of biotechnology (such as genetic engineering) and seeks to adapt them for use in large-scale production. Birmingham will concentrate on the development of bioreactors for commercial usage and University College on methods of supporting delicate living organisms during factory procedures, as well as on the computerised control of biotechnology processes in industry. It is hoped that innovations in biochemical engineering will cut the cost of producing many biotechnology products, such as drugs, medical diagnostic kits and disease-resistant crops, to less than 10 per cent of their present high levels.

The centres will carry out research in several areas of biochemical engineering, on their own behalf and under contract to industry. They will also expand the

training they offer in this discipline in the form of both postgraduate degree and shorter courses for scientists from industry and elsewhere.

Source: Science and Engineering Research Council press notice 26.10.87.

RELIGIOUS SLAUGHTER OF LIVESTOCK

New measures to improve the welfare controls on religious slaughter of animals and birds were announced in the House of Commons by the Minister of Agriculture, Fisheries and Food, Mr John MacGregor, on 29 October. These measures have been adopted after consideration of the report of the Farm Animal Welfare Council (FAWC) published in 1985.[1] Comments made by interested organisations and individuals have also been considered. The Minister said that the Government would implement 15 of the FAWC recommendations, which were directed to improving the methods and procedures for religious slaughter: these had to be performed humanely and be subject to proper legislative control.

Of particular importance, continued Mr MacGregor, would be a ban on the use of casting pens [in which the animal is locked and turned on its back] for cattle. There would also be new statutory rules for the handling of animals before and after slaughter and for the equipment used; and an extension of existing requirements for the licensing of premises and slaughtermen.

The Government had also considered, but could not accept, two further FAWC recommendations: that the Jewish and Muslim communities should be required to develop alternative arrangements for slaughter in order that the exemption from stunning before incision could be repealed; and that cuts of meat from religiously slaughtered animals should be labelled down to the point of retail sale. Mr MacGregor said that the Government had to recognise 'the serious implications for the religious communities if they were no longer allowed to prepare meat as their faiths require'. Such a burden could not be justified. The Government had also concluded that a statutory requirement for labelling was not practical. He added, however, that he would ask the religious communities to minimise the amount of meat produced by these methods which is diverted from the religious market.

Sources: *Hansard*, Vol 121, No 35, cols 409-11; Ministry of Agriculture, Fisheries and Food press notice, 29.10.87.

LONDON CITY AIRPORT

Services from London City Airport, a new airport in London's Docklands designed for short take-off and landing aircraft, were inaugurated on 26 October, and the airport was officially opened by the Queen on 5 November. The project, costing some £30 million, has been undertaken by John Mowlem and Company (a major British construction group), which owns and operates the airport. It covers a 37-hectare (92-acre) site and the runway is 762 m (2,500 ft) long, about one-quarter the length of the runway at a conventional airport. It is one of the few airports located in an inner city area, being only 10 km (6 miles) from the City of London, and will primarily cater for business travellers, unlike the other major London airports (including Heathrow and Gatwick) which also handle large numbers of holidaymakers. The terms of the planning permission for the airport stipulate certain restrictions on aircraft types and noise levels in order to ensure safety and minimise noise. Only short take-off and landing aircraft are capable of meeting these requirements, with the operators initially using the De Havilland of Canada Dash 7 aircraft. The number of daily aircraft movements is limited to 120 during the week and 40 at weekends.

In April 1987 two airlines – Brymon Airways and Eurocity Express – were granted approval by the Civil Aviation Authority for all their 13 applications relating to ten destinations from the airport. Both airlines have started services to Paris, with Brymon's service being provided in co-operation with Air France, while Eurocity Express is also operating, in co-operation with the Belgian airline Sabena, to Brussels and Brymon is operating a service to Plymouth (its home base). Both airlines have also been granted permission to fly to Amsterdam, while Brymon Airways also has permission to operate to Brussels and Newquay (Cornwall), and Eurocity Express has licences to fly to Guernsey, Jersey, Manchester, Düsseldorf and Rotterdam. With these other routes likely to be in operation by summer 1988, it is expected that about 350,000 passengers will travel through the airport in its first year, rising to a maximum passenger capacity of 1·2 million a year by the mid-1990s.

Source: London City Airport press notices, 26.10.87.

DEREGULATION OF BUS SERVICES

The benefits arising from the first year of the deregulation of bus services, which has resulted in greater competition in the provision of services and led to financial savings, were outlined by the Minister of State for Transport, Mr David Mitchell, on 26 October. The Transport Act 1985 (see pp 78-80, 1985) provided for the privatisation of the National Bus Company and for changes in the system of road service licensing (under which a local bus operator needed a road service licence before starting operations). This old system was abolished in Great Britain (except in London) in October 1986. Under the new system, operators have to register commercial services with the traffic commissioners and must give six weeks' notice for new registration, variation or cancellation of services. Local authorities and passenger transport executives then identify gaps and examine the need for additional services which they consider to be socially necessary and are prepared to subsidise, and are

[1] *The Welfare of Livestock when Slaughtered by Religious Methods*. HMSO, £4·20. ISBN 0 11 242729 4.

required to invite applications for operating these services by competitive tender to ensure that value for money is obtained.

Mr Mitchell said that the previous system of regulation and state control had led to 'stagnation, rising costs and rising subsidies', but the industry had become 'a thriving, competitive industry, organised to meet customers' needs'. As the Government had predicted, the main network of services had continued, and 85 per cent of bus miles operated had been registered as commercial. Bus mileage as a whole had grown by 12 per cent in the past year, with an increase of nearly 17 per cent in the 'shire' counties (those outside the main metropolitan areas). In October 1986 over 300 new operators had started services and subsequently a further 142 had begun operating, while the Government had received reports of over 100 areas in which competition was occurring. Since October 1986 the private sector had increased its vehicle mileage by 78 per cent, and its share of the market had risen from 8 per cent to 13 per cent. Competition had encouraged more efficient operation, with operators providing 'much better value for money'. Initial results of tendering had enabled local authorities to report savings of £40 million a year. Although subsequently some adjustments had proved necessary, most authorities were still making 'significant savings'. New types of service, such as taxibuses, were being provided, while minibuses were operating in over 250 areas, in many cases to places which could not be served by bigger buses.

The National Bus Company was being privatised as over 70 separate units, Mr Mitchell said, to encourage competition. Of the 48 companies sold, 29 had been sold to their own management or employees. He expected that the disposal programme would be completed well before the statutory deadline of January 1989.

Mr Mitchell said that he foresaw 'the benefits of competition extending and growing', and envisaged that deregulation would be implemented in London by the early 1990s.

Source: Department of Transport press notice, 26.10.87.

AIDS Control: United Nations Debate

Measures taken in Britain to control the impact of the disease AIDS were outlined by the Secretary of State for Social Services, Mr John Moore, in a speech to the General Assembly of the United Nations on 20 October, in which he emphasised the need to encourage international co-operation in combating the problem.

Addressing the General Assembly during a debate on AIDS, Mr Moore said that by September 1987, over 1,000 sufferers from AIDS had been identified in Britain and over half of these had already died. The number of cases was doubling every ten months and the reported number of cases of HIV infection was now over 7,500 while the actual number might be as high as 40,000 to 50,000.

The United Kingdom Strategy

Mr Moore outlined the four-part strategy which Britain had developed to tackle the growing problem of AIDS. This comprised measures in public education; infection control and surveillance; research; and the development of health and other services for people infected with the disease.

In the absence of medical defences against AIDS, public education was the main weapon in the fight to limit the spread of infection. The Secretary of State referred to the Government's $33 million (£20 million) public education campaign launched in late 1986 (see pp 397-9, 1986), involving national press, television and radio advertising, a free national telephone advisory service and the distribution of leaflets to all households in Britain. The most recent stage of the campaign, begun in September, concentrated on the dangers of infection to those who inject drugs (see p 303).

As regards infection control and surveillance, measures already taken involved the screening of blood donations, heat treatment of blood products, the establishment of a confidential and voluntary reporting system to monitor the spread of the disease and the provision of free and confidential testing and counselling services.

On research, Mr Moore referred to the $24 million (£14·5 million) programme aimed at developing vaccines to prevent infection and new anti-viral drugs to treat people already infected (see pp 109-10); and to a number of AIDS-related research projects funded by the Government and the heavy investment made by the pharmaceutical industry in this area.

As regards the provision of services for the care and support of those already infected (see pp 146-7), Mr Moore said that the Government believed that, wherever possible, these should be community-based to enable people to be cared for in their own homes. To achieve this the Government aimed to promote co-operation between health authorities, local government and the voluntary sector in providing a range of services including treatment, counselling and special training for staff, one element of which was a working group established to consider the implications of AIDS for both health and local government services.

Worldwide Position and Action

A further crucial aspect of the British Government's strategy was the need to encourage international co-operation to contain the disease. Britain greatly appreciated the achievements of the World Health Organisation (WHO) in this field and fully supported its Special Programme on AIDS, which aimed to provide universal leadership, to help international collaboration and to support and strengthen national AIDS programmes worldwide. Britain had contributed nearly $5·5 million (£3·3 million) to this Special Programme and was giving over $2·5 million (£1·5 million) to the International Planned Parenthood Federation for its work on AIDS. It was also discussing with the WHO the best way of supporting national AIDS control programmes planned in a number of affected countries.

Mr Moore spoke of the three traps which threatened to undermine international efforts: the first was to pretend that AIDS was not a threat in one's own country. On the contrary, all countries would be affected in one way or another and the disease would not be defeated on a world scale unless each country took action to defeat it within its own borders. The second trap was to expend energy in arguing about the origins of the disease. The concern of governments must be with the much more urgent issue of how to tackle the infection. The third, and perhaps most dangerous, trap was to try to isolate one's own country completely from the spread of AIDS. Even if this were possible, to sustain such a self-imposed quarantine would require the most draconian measures, involving not only rigid controls over the population, but also severe curtailing of contacts between them and those of other countries. The devastating impact this could have on relations between countries, not to mention trade and travel links, was likely far to outweigh its effectiveness in combating AIDS. The United Kingdom firmly supported the WHO's opposition to such measures.

Three positive approaches were needed in confronting the problem: each country must face up to the

threat posed by AIDS and take the right measures to safeguard its people, notably by teaching them how the infection was transmitted and how to avoid catching it; each country must work with others as part of a communal effort, involving willingness to co-operate in medical research projects and surveys, exchanging experience and expertise and making available new scientific information and data as soon as practicable; and third, it was essential for the necessary international efforts to be co-ordinated, otherwise there could be wasteful duplication in some fields and inadequate action in others.

In conclusion, Mr Moore spoke of the importance of having these issues aired on the world stage and he hoped that the debate would play its part in generating greater understanding, effort and co-operation between the member states of the United Nations. The British Government looked forward to the joint WHO/UK World Summit of Health Ministers in January 1988 in London. The theme of this summit would be public education and prevention and he hoped that it would enable a further useful exchange of views.

School-Industry Links

A government survey published in October shows that the great majority of secondary schools in England formed working links with firms spanning a wide range of activities during 'Industry Year 1986'.

The survey,[1] which was carried out in February 1987, covered 365 state-supported primary and 323 secondary schools in England. It examined the extent and nature of schools' links with industry during 1986, designated as Industry Year (see p 27).

More than nine-tenths of secondary schools and about one-half of primary schools reported that they had had some links with industry in 1986, contact with manufacturing and service industry companies having been the most prevalent. Nearly 90 per cent of secondary schools said that a proportion of their pupils had had work experience during the year, with an average of 66 per cent of pupils in the last year of compulsory education having received placements in industry. Some 85 per cent of secondary schools and 33 per cent of primary schools had made visits to firms, while 43 per cent of the former and 24 per cent of the latter had been involved with companies in activities designed to develop the school curriculum. Over 60 per cent of secondary schools said that they had benefited from practical help from local industry.

Although only 1 per cent of primary schools had seconded full-time teaching staff to industry during 1986, 47 per cent had employed teachers who had previously worked in industry, which amounts to about 10 per cent of the total number of qualified primary school teachers. One in four of secondary schools reported that they had seconded full-time teaching staff to industry, and 88 per cent said that they had employed teachers with previous industrial experience, representing some 12 per cent of qualified teaching staff within all secondary schools. About 14 per cent of secondary schools had had a representative from industry seconded to a teaching or advisory post in their school, and 93 per cent reported that they had had a careers teacher, who had spent on average 14 hours a week on careers work.

The proportions of primary and secondary schools which said that they had had an employers' representative on their governing body were 13 and 32 per cent respectively.

Commenting on the survey's findings, the Secretary of State for Education and Science, Mr Kenneth Baker, said that Industry Year represented a milestone in school-industry co-operation. There was, he said, a great variety of ways in which firms could become involved with schools, including participation in the newly constituted governing bodies which were expected to have local business people in their membership (see p 239, 1986).

[1]The results of which are summarised in Department of Education and Science Statistical Bulletin, No 12/87, October 1987.

Shorter Note

NATIONAL HERITAGE MEMORIAL FUND

The Government's proposal to grant an extra £20 million to the National Heritage Memorial Fund was announced by the Secretary of State for the Environment, Mr Nicholas Ridley, in the House of Commons on 22 October. He said that the Fund had played a significant role in safeguarding Britain's heritage. The Government's grant to the Fund had totalled some £83 million since its creation in 1980, including an initial endowment of £12·4 million. The extra resources would enable the trustees to maintain their present level of activity while restoring the Fund's reserves to their original value in real terms.

The Fund was set up under the National Heritage Act 1980 with powers to provide financial assistance towards the acquisition, maintenance and preservation of buildings, land, works of art and other objects or structures of outstanding interest and of importance to the national heritage. It receives an annual grant of £3 million from the Department of the Environment and the Office of Arts and Libraries.

In 1986-87 the Fund spent £38 million, according to its annual report, published on 22 October. Much of its expenditure went to secure the future of two great houses, Kedleston Hall in Derbyshire and Weston Park in Shropshire, and to pay for the major contents of Nostell Priory in West Yorkshire. In addition, the Fund supported a wide variety of other projects, including the purchase of two large areas of the Norfolk Broads by the Royal Society for the Protection of Birds and the National Trust respectively, the acquisition by the British Museum of the Vindolanda writing tablets (part of the oldest group of written documents known in Britain), and the rescue of important British films by the National Film Archive.

Sources: Department of the Environment press notice, 22.10.87; *National Heritage Memorial Fund Annual Report 1986-87*. NHMF, 10 St James's St, London SW1A 1EF. £5.

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